

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001

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POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

RESPONSE OF THE UNITED STATES POSTAL SERVICE  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3  
ITEMS 1-10, 13-26, 28-31, 33-35  
(September 22, 1997)

The United States Postal Service hereby provides its responses to the above items of Presiding Officer's Information Request No. 3, issued September 8, 1997. The questions are stated verbatim and are followed by the answers, with declarations from witnesses. Portions of some questions are answered by more than one witness.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

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September 22, 1997

Response of Postal Service Witness Bernstein  
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1. In his discussion of the relation of Ramsey pricing to the Efficient Component Pricing (ECP) rule, witness Bernstein (USPS-T-31) uses Thress's own-price elasticities for single-piece letters of -0.189240 and for workshared letters of -0.289173. See page 83. Since decisions by mailers to perform more (or less) worksharing are modeled by witness Thress (USPS-T-7) with a "discount elasticity," these two own-price elasticities would seem to relate to the effects of price changes on quantities, with the level of the discount remaining constant.

The Ramsey formulas, however, contain traditional own-price elasticities defined as the change in quantity divided by the change in price, time the price-quantity ratio, other relevant variables remaining unchanged. When considering the Ramsey formulas for single-piece mail, one of the other relevant variables that remains unchanged is the price of workshared mail. Since this latter price remains unchanged, an increase in the price of single-piece mail will increase the discount by an equal amount. Accordingly, the change in quantity that enters into the numerator of the elasticity has two components. The first is the change in quantity of single-piece mail due to the price increase itself and the second is the change in quantity due to mailers that decide to workshare. When added, these components can provide a large numerator and therefore a large elasticity.

It appears that witness Bernstein used the lower elasticity of -0.189240 rather than the larger elasticity that would result from adding the two effects just discussed. Please explain which elasticity is relevant to Ramsey calculations and how the result would be affected by using one elasticity instead of the other. Also, please specify and explain the cross elasticities that were used to obtain the Ramsey results shown in Table 17 on page 87.

RESPONSE:

From a conceptual standpoint, the own-price elasticity in Ramsey price calculations relates to the issue of leakage. Leakage refers to the loss of mail volume that results from an increase in price and the resulting loss of consumer surplus and decline in Postal Service net revenues. Witness Thress's discount elasticity measures the shift of volume between single-piece and workshare mail in response to a change in the workshare discount but -- importantly -- the elasticity is calibrated so that there is no change in total volume. Hence, there is no leakage in the sense of a decline in mailer

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use of First-Class letters from a change in the discount. For that reason, the discount elasticity is not included in the calculation of the Ramsey prices of single-piece and workshared letters.

At the same time, the shift of mail between single-piece and workshared letters, while having no effect on total volume, will affect net revenues of the Postal Service. In other words, the discount elasticity effect is not an issue of volume, but of cost, with a change in the discount affecting Postal Service cost and mailer user cost. Therefore, the effect of the discount elasticity is included in the calculations of total volumes of single-piece and workshared letters and total Postal Service net revenues from the First-Class letter subclass.

If, hypothetically, the demand model did include own- and cross-price elasticities, the own- and cross-price elasticities of single-piece mail (and similarly modeled workshare mail) would have been included in the Ramsey price calculations, following the standard formula with interdependent demands. Most likely, such a formulation would have led to a higher own-price elasticity of single-piece mail leading, in itself, to a lower Ramsey price for this category. But, the presence of the cross-price elasticity between single-piece and workshared mail would have led to an offsetting increase in the Ramsey price. Similarly, including a cross-price elasticity with single-piece mail in the demand equation for workshare mail would most likely increase the workshare own-price elasticity, but the combined impact of the higher own-price elasticity and cross-price elasticity would leave the Ramsey price of workshare letters largely unaffected.

An effort was made to convert witness Thress's discount elasticity into a traditional cross-price elasticity measure. This effort was unsuccessful because a

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constant percentage change in the discount does not correspond to a constant percentage change in the price of either single-piece or workshare mail, making any local approximation of the cross-price elasticity quite inaccurate when category prices change to a meaningful degree.

To summarize, the own-price elasticities of single-piece and workshare mail are used to calculate the Ramsey prices of these categories because the own-price elasticities measure the loss or gain in volume that occurs when category prices change. Once a set of Ramsey prices was established, the discount elasticity was included (along with the own-price elasticities) to generate a volume forecast and check to see if the net revenue requirement was satisfied. Through an iterative process, Ramsey prices and a resulting workshare discount were found that satisfy the Ramsey revenue requirement for the First-Class letter subclass.

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2. On page 85, witness Bernstein (USPS-T-31) notes: "A key assumption of the price calculation is that when the a piece of mail shifts from single-piece to workshare, the postal marginal cost of that mail falls from the single-piece marginal cost of \$0.2323 to the workshare marginal cost of \$0.0991, thereby saving the Postal Service ... \$0.1333 per piece." Please provide any evidence available supporting the position that the savings to the Postal Service for likely-workshared mail is in the neighborhood of 13.33 cents per piece and, separately, supporting the position that the relevant savings is not in the neighborhood of the current 6-cent discount level (the latter figure being discussed on page 81).

RESPONSE:

The Postal Service's cost savings from mailer worksharing may be less than the difference between the average postal costs of single-piece and workshared mail, as I noted in my discussion at pages 81-82 of my testimony. As I stated at page 81, lines 21-23, "the type of mail that is most likely to shift from single-piece to workshare mail is probably relatively low cost single-piece mail." In this case, the Postal Service cost savings from mailer worksharing would be less than the difference between the average costs of single-piece and workshared mail.

Nevertheless, in order to make empirical calculations I needed to make assumptions regarding the cost savings from mailer worksharing. The 13.33 cent (actually closer to 13.32 cent) difference between the average costs of single-piece and workshare mail was used in my calculations, primarily so as to compare the resulting Ramsey workshare discount to the ECP discount. Please see my response to part 3 of this information request for more discussion of this issue.

All the same, as this question suggests, from within the nonworkshared category, one could, in theory at least, identify the mail that is more likely to become workshared if the discount is increased. This is what I presume to be "likely-workshared."

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Furthermore, if the costs and volumes of this "likely-workshared" mail could be determined and if the per piece cost of likely-workshared mail differed from the per piece cost of all nonworkshared mail, then this cost estimate might provide a basis for estimating the Postal Service cost savings from worksharing.

It is my understanding that the foregoing line of reasoning is consistent with the use in this case of bulk metered letter mail as the benchmark used to design worksharing discounts (see the testimony of David Fronk, USPS-T-32 at pages 19-21). There, the costs of bulk metered letter mail are used as a proxy for the average costs of "likely-workshared" mail. I am informed that the best available estimate of the cost of bulk metered letter mail is between 16.19 and 18.79 cents per piece. I understand that the development of this estimate will be presented in a separate portion of the response to this question. Given this information, it would appear that the Postal Service savings from mailer worksharing could be approximated as the difference between the per piece cost of bulk metered mail and the 9.91 cent per piece cost of workshared mail, or in the range of 6.28 to 8.88 cents per piece. This cost difference is lower than the 13.32 cent cost used in the empirical calculations in my testimony (though it is greater than the six cent cost difference suggested in this interrogatory), but is consistent with the conceptual discussion presented at pages 81-82.

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3. On page 88, witness Bernstein develops an estimate of the technical losses caused by the Ramsey workshare discount of 14.38 cents when the ECP workshare discount is 13.32 cents, the latter figure being the difference between the Postal Service cost between the single-piece and workshare category. Please develop the technical losses caused by a Ramsey discount for a situation where the Postal Service's savings (and the associated ECP workshare discount) are in the neighborhood of 6 cents instead of 13.32 cents.

RESPONSE:

This question appears to be asking for a recalculation of the Ramsey prices of single-piece and workshared letters under the condition that the difference between the postal marginal costs of mail that shifts between these two categories is approximately six cents. However, in order to calculate the net revenues that result from the Ramsey prices, one must know the per piece costs of all single piece and all workshare mail and not just the difference in the costs that results when a piece of mail shifts from single-piece to workshare. The Postal Service reports that the per piece cost of single-piece mail is approximately 23 cents and the per piece cost of workshare mail is approximately 10 cents. It is not possible to calculate prices under the conditions that one category has a cost of 23 cents, the other has a cost of 10 cents, and the difference between 23 cents and 10 cents is 6 cents.

Perhaps the hypothesis is that there are three types of First-Class letter mail as I suggested at page 77, line 18 to page 78, line 12 of my testimony. One type of First-Class letter mail is mail that will never be workshared for any reasonable level of the discount. By this I mean that the volume of this mail is affected by its own-price through an own-price elasticity effect but the discount elasticity effect is zero. A second type of First-Class letter mail is mail that will always be workshared for any reasonable level of

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the discount. The volume of this mail is affected by its own-price but is not affected by changes in the workshare discount. The third type of First-Class letter mail is that mail which shifts between single-piece and workshare depending on the level of the discount.

Given this formulation, it may be the case that the always single-piece mail has one postal marginal cost, the always workshare mail has another postal marginal cost, and the shifting mail has two postal marginal costs, one cost if the mail piece is workshared and a different cost if it is not. Furthermore, it could be the case that the difference between the single-piece and workshared postal marginal costs of this shifting mail is six cents, while the difference between the marginal costs of the always single-piece and always workshare mail is quite a bit more than six cents.

Unfortunately, I have no information on the postal costs of the always single-piece and always workshare mail. The postal cost of all single-piece letter mail is approximately 23 cents per piece, but this mail is a mix of (presumably) higher cost always single piece mail and lower cost shifting mail that was sent as single-piece at the current discount. Similarly, the postal cost of all workshare letter mail of approximately 10 cents per piece could be a mixture of the (presumably) lower cost of always workshare mail and the higher cost of shifting mail that was sent as workshare mail at the current discount.

Although the above formulation does not lend itself to empirical analysis, it does provide a framework for reviewing what can and cannot be accomplished by application of the Efficient Component Pricing (ECP) rule. ECP minimizes the total cost of providing mail service by establishing the workshare discount that provides incentives



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for the party (the Postal Service or the mailer) with the lower cost of performing the workshare activity to perform that activity. The ECP discount, given the above discussion, is six cents. But establishing the cost minimizing discount tells us nothing about the proper prices of single-piece and workshared letters. A 33 cent single-piece price and a 27 cent workshare price will yield a cost minimizing allocation of workshare activity. But cost minimization is also achieved with a single-piece price of 43 cents and a workshare price of 37 cents, or with any other price combination that yields a price difference of six cents. Yet, it would be little comfort to mailers to establish the cost minimizing discount while at the same time establishing woefully inefficient prices for single-piece and workshare letters.

To further understand this point, suppose that 49 percent of letter mail is always single-piece mail, another 49 percent is always workshare mail, and only 2 percent is shifting mail. The ECP rule would establish the cost minimizing price (discount) for the 2 percent of the mail that is actually affected by the workshare discount, while leaving unresolved the proper prices for the 98 percent of First-Class letter mail volume which, in this hypothetical, is unaffected by the workshare discount. The point is, one cannot independently set the price of single-piece mail, the price of workshare mail, and the workshare discount. Establishing any two of these prices automatically determines the third, and as a consequence some trade-offs between efficient category prices and the efficient discount must be recognized.

These trade-offs were found in my empirical work which assumed that the ECP discount was equal to the 13.32 cent difference in the marginal costs of single-piece and workshare mail. The Ramsey price difference (or discount, after adjusting for the

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affect of extra ounce charges) was found to be 14.38 cents, larger than the ECP rule would dictate. This occurred because the efficiency gains from assigning a higher mark-up to less elastic single-piece mail outweighed the small loss resulting from some degree of misallocation of workshare activities.

The difference between the Ramsey and the ECP discount was found to be fairly small (on the order of one cent) for two reasons. First, the own-price elasticities of single-piece and workshare mail are not substantially different and second, the discount elasticity is sufficiently large to make the volume of shifting mail important relative to the volumes of always single-piece or always workshare mail. One could, however, envision a situation in which the discount elasticity (or cross-price elasticity) is quite small and the own-price elasticity differences are quite large so that the Ramsey prices would yield a discount quite a bit different from the ECP discount.

Returning, at last, to the question posed in this information request – a recalculation of the technical losses if the Postal Service's cost saving from worksharing is 6 cents per piece. As I stated earlier in this response, Postal Service cost information does not lend itself to an empirical analysis of the hypothesis that the cost saving from worksharing is equal to six cents per piece. Nonetheless, in an effort to be responsive, I have analyzed the purely hypothetical case in which the difference between the postal cost per piece of all single-piece mail and all workshare mail is 6 cents. To do this, the before-rates total volume variable costs of First-Class letter mail were re-attributed in a way that yields the same total cost but only a 6 cent per piece cost difference. This is done by solving the following equation where  $X$  is the per piece cost (in dollars) of single-piece letters and  $X - 0.06$  is the per piece cost of workshare letters:

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Total Volume Variable Cost = Single-Piece Volume•X + Workshare Volume•[X - 0.06]

\$16,753.647 million = 54,394.309 million•X + 41,506.989 million•[X - 0.06]

The resulting volume variable (marginal) costs per piece are 20.0665 cents for single-piece letters and 14.0655 cents for workshared letters. Note that the above costs for single-piece and workshare letters were solved for mathematically and are not based on any information from the Postal Service regarding these category costs. Accordingly, the present analysis is merely illustrative.

**a. Hypothetical Ramsey Prices with Six Cent Cost Difference**

Using the above costs, I was able to recalculate Ramsey prices for these two mail categories under the assumption that the Postal Service's savings from worksharing are equal to 6.0 cents per piece. The results are shown in Table 17-A.

**Table 17-A**  
**Before-Rates and Ramsey Prices of Single-Piece and Workshared Letters**  
**[assuming new postal marginal costs]**

Before-Rates	Postage Price FWI	Postal MC	Test Year Volume	Total Revenue	Total Cost	Net Revenue
Single-Piece	\$0.3934	\$0.2007	54,394	\$21,398	\$10,915	\$10,483
Workshare	\$0.2691	\$0.1407	41,507	\$11,169	\$5,839	\$5,330
Total Letters			95,901	\$32,567	\$16,754	\$15,813
Ramsey After-Rates	Postage Price FWI	Postal MC	Test Year Volume	Total Revenue	Total Cost	Net Revenue
Single-Piece	\$0.4125	\$0.2007	53,300	\$21,985	\$10,695	\$11,290
Workshare	\$0.2822	\$0.1407	42,006	\$11,856	\$5,909	\$5,947
Total Letters			95,306	\$33,841	\$16,604	\$17,237

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**b. The Ramsey Workshare Discount**

The Ramsey workshare discount is equal to the difference between the Ramsey FWI of single-piece letters and the Ramsey FWI of workshare letters, less 6.43 cents to account for the differing effects of extra charges on these FWI prices. The difference between the Ramsey FWI prices using the new marginal costs as shown in Table 17-A is 13.03 cents (41.25 cents minus 28.22 cents), which yields an efficient discount of about 6.60 cents (13.03 cents minus 6.43 cents). Note that as was shown in the original Table 17, the efficient discount is slightly greater than the ECP discount.

**c. Technical Losses Resulting from Non-ECP Discount**

With a Ramsey discount somewhat greater than the ECP discount, some misallocation of worksharing activity occurs. Mailers with a user cost of between 6.0 and 6.6 cents would be induced to workshare, even though their user cost is greater than the assumed cost savings from worksharing realized by the Postal Service. This additional volume of single-piece mail that shifts to workshare can be estimated by applying the single-piece discount elasticity of -0.146183 to the ratio of the Ramsey discount (6.60 cents) to the ECP discount (6.0 cents). The result is that 1.38 percent of single piece mail shifts to workshare mail as a result of the larger than ECP discount. Multiplying the before-rates volume of single-piece mail of 54,394 million pieces by 0.0138 yields the result that 751 million pieces of single-piece mail is workshared by mailers with a user cost in excess of the Postal Service cost savings. The technical losses from this misallocation is equal to the difference between the mailers' user costs and the Postal Service's 6 cent cost savings. Misallocation of workshare activity occurs by mailers with user costs between 6.0 and 6.6 cents, the simple average of

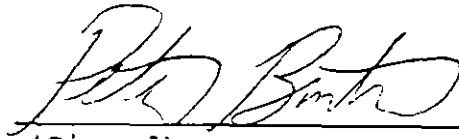
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which is 6.3 cents. Thus, on average 751 million pieces of mail are bearing an additional cost of 0.3 cents per piece, a total technical loss of about \$2.3 million. As was the case in my original testimony, the technical loss from a discount different from the ECP discount appears to be quite small.

Note that the foregoing illustrative analysis suggests that there is little difference between the current six cent workshare discount and the Ramsey efficient workshare discount, given the hypothesis of a six cent difference in the costs per piece of single-piece and workshare mail. Even if this were the case, the result does not affect the gains in consumer surplus of \$1,023 million, realized from the Ramsey pricing of the First-Class letter subclass and the other mail subclasses and special services considered in my testimony.

DECLARATION

I, Peter Bernstein, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
(Signed)

  
\_\_\_\_\_  
(Date)

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2. On page 85, witness Bernstein (USPS-T-31) notes: "A key assumption of the price calculation is that when a piece of mail shifts from single-piece to workshare, the postal marginal cost of that mail falls from the single-piece marginal cost of \$0.2324 to the workshare marginal cost of \$0.0991, thereby saving the Postal Service ... \$0.1333 per piece." Please provide any evidence available supporting the position that the savings to the Postal Service for likely-workshared mail that may become workshared is in the neighborhood of 13.33 cents per piece and, separately, supporting the position that the relevant savings is not in the neighborhood of the current 6-cent discount level (the latter figure being discussed on page 81).

Response (Partial):

Witness Bernstein is also responding in part to this question.

The mail processing and delivery cost for bulk metered letters is 14.73 cents (see my exhibit USPS-29C, page 1, footnote 5). We do not have the remainder of the volume variable costs (non-mail processing and delivery) specifically for bulk metered letters. These non-mail processing and delivery unit costs are 1.30 cents<sup>1</sup> and 3.88 cents<sup>2</sup> for First-Class presort and non-presort respectively.

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<sup>1</sup> The First-Class presort non-mail processing and delivery unit cost, 1.30 cents, is the difference between, 9.80 and 8.51 cents. The 9.80 cents is the total volume variable unit cost for First-Class presort (without contingency) calculated from exhibit USPS-15E, page 7, total volume variable costs of 4,069,545 and exhibit USPS-15G, page 15 total volumes of 41,506,989. The 8.51 cents is the volume variable unit costs for mail processing and delivery costs (including piggyback or indirect costs) for First-Class presort. This is calculated by summing the mail processing costs including piggyback costs (1,236,653 times 1.60350), the city carrier costs including piggyback costs (909,275 times 1.32005) and the rural carrier costs including piggyback costs (290,187 times 1.19693) and dividing by total volumes of 41,506,989. The volume variable mail processing, city carrier and rural carrier costs are from exhibit USPS-15E, pages 19, 1, and 3 respectively. The corresponding piggyback factors are from USPS LR-H-77, pages 41, 87, and 138.

<sup>2</sup> The First-Class non-presort non-mail processing and delivery unit cost, 3.88 cents, is the difference between, 23.00 and 19.12 cents. The 23.00 cents is the total volume variable unit cost for First-Class non-presort (without contingency) calculated from exhibit USPS-15E, page 7, total volume variable costs of 12,506,161 and exhibit USPS-15G, page 15 total volumes of 54,394,309. The 19.12 cents is the volume variable unit costs for mail processing and delivery costs (including piggyback or indirect costs) for First-Class non-presort, which are 14.11 and 5.00 cents, respectively. The mail processing volume variable unit costs, 14.11 cents, is calculated from 4,899,428 times 1.56702 divided by total volume, 54,394,309. The volume variable mail processing costs are from exhibit USPS-15E, page 19, and the piggyback factor is from USPS LR-H-77, page 41. The delivery unit cost, 5.00 cents, is from USPS-29C, page 1.

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If the cost characteristics of bulk metered letters with respect to functions other than mail processing and delivery are more like presort mail, the total cost per piece would be 14.73 cents plus 1.30 cents, or 16.03 cents. Conversely, if bulk metered letters are more like non-presort mail in these respects, the total would be 14.73 cents plus 3.88 cents, or 18.61 cents. Thus, when the contingency is added, it would appear the volume variable unit costs for bulk metered letters lie somewhere between 16.19 cents and 18.79 cents.



**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS DANIEL TO  
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**POIR No. 3, Question 20.** Witness Moeller adds mail processing unit costs and delivery unit cost by rate category to develop cost savings for presort and automation discounts. See USPS-T-36, Workpaper 1, pages 10, 11, and 12. Witness Daniel supplies the letter mail processing unit costs (USPS-T-29) and witness Seckar supplies the flat mail processing unit costs. Witness Seckar uses two bases for computing the flat mail processing costs: (1) actual mail makeup; and (2) constant mail makeup. The actual mail makeup approach reflects cost differences resulting from worksharing and inherent mail characteristics. The constant mail make-up approach primarily reflects cost savings resulting from mailer-applied barcodes. See USPS-T-26, page 4. Witness Daniel, however, does not use a constant mail makeup approach for letter mail processing unit costs. Witness Moeller uses witness Seckar's constant mail makeup costs as the basis for worksharing discounts for flats. See USPS-T-36, page 19.

Please explain why the discounts for letters do not reflect the same constant mail makeup basis used for flats. Please calculate the cost savings for letters using a constant makeup approach.

**RESPONSE:**

Conceptually, the reason for the constant makeup analysis in flats is that the presort definition for sacked barcoded flats is less stringent, which I understand may contribute to higher mail processing costs. The same does not hold true, however, for letters. The preparation and makeup requirements for Automation letters do not contribute to higher mail processing costs for Automation letters; rather, such preparation and makeup requirements contribute to additional cost savings through avoided bundle sorting costs.

Some of the letter models presented in my testimony could already be analyzed to determine cost differences holding makeup constant. Specifically, Automation letters and OCR Upgradable letters in full UPGR trays in the cost models presented in my testimony (see Appendices I and III at pages 1 and 11) have the same makeup characteristics in that both reflect the same proportion of letters in AADC versus Mixed AADC full trays.

It does not appear that further constant makeup comparisons in letters will yield cost differences upon which rates may be set because such comparisons would not reflect the avoided costs of bundle sorting and because automation and presort letter categories do not have parallel presort tiers as is the case for flat-rated pieces. Notwithstanding, a constant makeup framework could be constructed by first applying

the proportion of letters in AADC trays and Mixed AADCs entered as Automation Basic to letters entered as Basic non-OCR upgradable letters as shown in Table V below. Once the entry point profile of Automation is applied to non-OCR upgradable letters, bundle sorting costs need to be eliminated, as shown in Table II. This results in a modeled cost for non-OCR Basic letters of 9.7950 cents. The next step is to apply CRA adjustments to determine the average cost of presort Basic in Table I. This results in an average cost of 8.7310 cents for Regular Presort Basic letters with the same proportion of full AADC and mixed AADC trays as Regular Automation Basic letters. This figure is approximately one-half cent lower than the “actual makeup” cost of 9.0252 cents for Regular Basic Presort reported in Exhibit USPS-29A.

A constant makeup for finer presort categories is complicated by the fact that the Automation and Presort rate categories are not parallel in letters, as is the case for flats. Automation letters are split into three separate presort tiers: Basic, 3-Digit and 5-Digit. By contrast, Presort letters are split into only two presort tiers: Basic and 3/5-Digit. A constant makeup analysis could be constructed by assuming that all 3/5 digit Presort letters are presented in full 3-Digit trays. Using this assumption, Tables III and VI below show that the modeled cost of OCR upgradable letters in full 3-Digit trays is 4.8910 cents, and the modeled cost of non-OCR upgradable letters in full 3-Digit trays is 8.3090 cents. After applying the original CRA adjustments, the average cost of Presort letters in full 3-Digit trays (under the “constant makeup” framework) is 7.6288 cents as seen in Table I. This is compared to an “actual makeup” cost of 6.7389 cents for Regular 3/5-Digit presort presented in Exhibit USPS-29A. It is important to keep in mind, however, that the figures calculated assuming constant makeup neither account for the cost savings associated with bundle sorting, nor reflect the cost savings associated with the composition of the 3/5-Digit Presort rate category, which, unlike the 3-digit Automation tier, includes some letters sorted to the 5-digit level.

Similar figures for Nonprofit are presented in Tables VI through X.

TABLE I

**Development and Summary of Standard Regular Mail Processing Costs ("CONSTANT MAKEUP")**

	[1] Model Unit Cost	[2] Proportional Adjustment	[3] Fixed Adjustment	[4] Total Unit Cost	[5] Percent DPS	[6] Model Weights
Automation Basic	4.2210	1.0661	0.7737	5.2738	63.05%	15.12%
Automation 3-Digit	3.7069	1.0661	0.7737	4.7255	65.06%	46.70%
Automation 5-Digit	2.4849	1.0661	0.7737	3.4227	68.48%	14.45%
Presort Basic (UPGR Trays)	5.3554	1.0661	0.7737	6.4829	60.14%	1.23%
Presort Basic Upgr. ("CONSTANT MAKEUP")	5.3554	1.0661	0.7737	6.4829	59.71%	3.67%
Presort Basic Nonupgr ("CONSTANT MAKEUP")	9.7950	1.0661	0.7737	11.2158	25.90%	4.43%
Presort Basic (Weighted Average)	7.4642	1.0661	0.7737	8.7310	43.71%	9.34%
Presort 3/5 Upgr. ("CONSTANT 3-D MAKEUP")	4.8910	1.0661	0.7737	5.9879	60.58%	2.54%
Presort 3/5 Upgr. ("CONSTANT 3-D MAKEUP")	4.8910	1.0661	0.7737	5.9879	60.58%	5.37%
Presort 3/5 Nonupgr ("CONSTANT 3-D MAKEUP")	8.3090	1.0661	0.7737	9.6316	25.91%	6.48%
Presort 3/5 (Weighted Average)	6.4303	1.0661	0.7737	7.6288	44.97%	14.39%

RR MODEL COST WEIGHTED AVERAGE <sup>1</sup>	4.3508
Proportional Cost Pools (page 2)	4.5376
CRA Proportional Adjustment	1.0661
CRA Fixed Adjustment (page 2)	0.7737

Automation Basic Enhanced Carrier Route <sup>2</sup>	0.4086	48.38%	100.00%
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<sup>1</sup> RR Model Cost Weighted Average = Column [1] \* Column [6]

<sup>2</sup> Automation Basic Enhanced Carrier Route Model Cost is from Appendix I at page 9.

[1] Model Unit Cost from Cost Summary Sheet in Appendix I.

[2] Proportional Cost Pools from Exhibit USPS-29A at page 2 divided by RR Model Cost Weighted Average

[3] Fixed Cost Pools from Exhibit USPS-29A at page 2.

[4] Total Unit Cost = Column [1] \* Column [2] + Column [3].

[5] DPS Percent from Cost Summary Sheet in Appendix I.

[6] Model Weights are percent shares of each rate category based on TY Before Rates Volume Forecast and within the Presort Rate categories according to percentages in the Mail Characteristics Study (USPS LR-H-105).

TABLE II

Test Year Standard (A) Regular Non-OCR Basic Letters Cost Summary  
"CONSTANT MAKEUP"

	(1) Mix of Handlings	(2) Pieces per Hour	(3) Wage Rate	(4) Direct Labor Cents/Piece	(5) Piggyback Factor	(6) Premium Pay Adj.	(7) Operation Unit Cost	(8) Modeled Unit Cost
<b>Outgoing Primary</b>								
Manual	2,557	812	\$25.445	3.1336	1.3720	-0.1316	4.1677	1.0658
MLOCR	2,022	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.1437
RBCS Images Processed	1,118	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.1959
LMLM	143	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0103
BCS-OSS	1,091	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0388
MPBCS	170	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0087
<b>Outgoing Secondary</b>								
Manual	416	691	\$25.445	3.6823	1.3720	-0.1547	4.8975	0.2038
MPBCS	409	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0208
<b>ADC Distribution</b>								
Manual	3,723	759	\$25.445	3.3524	1.3720	-0.1408	4.4587	1.6598
MLOCR	2,056	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.1461
RBCS Images Processed	1,137	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.1992
LMLM	146	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0105
BCS-OSS	1,109	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0395
MPBCS	536	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0272
<b>SCF Operations</b>								
Manual	2,919	896	\$25.445	2.8398	1.3720	-0.1193	3.7770	1.1027
MLOCR	492	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.0350
RBCS Images Processed	241	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.0422
LMLM	31	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0022
BCS-OSS	235	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0084
MPBCS	824	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0419
<b>Incoming Primary</b>								
Manual	1,602	562	\$25.445	4.5276	1.3720	-0.1902	6.0217	0.9647
MLOCR	0	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0000
MPBCS	576	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0293
<b>Incoming Secondary</b>								
Manual MODs Sites	3,525	646	\$25.445	3.9389	1.3720	-0.1654	5.2387	1.8464
Manual Non-Auto Sites	3,566	1,143	\$25.445	2.2261	1.3720	-0.0935	2.9607	1.0556
MPBCS	914	6,633	\$25.445	0.3836	1.7190	-0.0161	0.6433	0.0588
DBCS First-Pass	2,314	7,467	\$25.445	0.3408	2.4340	-0.0143	0.8151	0.1886
DBCS Second-Pass	2,198	7,467	\$25.445	0.3408	2.4340	-0.0143	0.8151	0.1792
CSBCS First-Pass	520	17,124	\$25.445	0.1486	1.9480	-0.0062	0.2832	0.0147
CSBCS Second-Pass	512	17,124	\$25.445	0.1486	1.9480	-0.0062	0.2832	0.0145
CSBCS Third-Pass	507	17,124	\$25.445	0.1486	1.9480	-0.0062	0.2832	0.0144
<b>Other</b>								
Acceptance/Verification	10,000						0.1844	0.1844
<b>Sort to P. O. Boxes:</b>								
DPS	250	2,341	\$25.445	1.0868	1.3660	-0.0456	1.4389	0.0360
Non-DPS	715	1,171	\$25.445	2.1735	1.3660	-0.0913	2.8777	0.2058
Bundle Sorting Basic	0						1.7447	0.0000
%DPS	25.90%							

Figures in Columns [1], [2], [3], and [5] are reported in subsequent pages in this Appendix.

Column [4] = 1/Column [2] page 43 \* Column [3] page 42Column [6] = Column [4] \* (premium pay factor page 42 - 1)Column [7] = (Column [4] \* Column [5] page 42) + Column [6]Column [8] = Column [7] \* Column [1] mail flow / 10,000

MODEL COST	9.7950
PROPORTIONAL ADJ. <small>Exhibit USPS-29A</small>	1.0661
FIXED ADJUSTMENT <small>Exhibit USPS-29A</small>	0.7737
TOTAL UNIT COST	11.2158

TABLE III

Test Year Standard (A) Regular Upgradable Tray 3/5-Digit Presort Letters Cost Summary  
"CONSTANT MAKEUP"

	(1) Mix of Handlings	(2) Pieces per Hour	(3) Wage Rate	(4) Direct Labor Cents/Piece	(5) Piggyback Factor	(6) Premium Pay Adj	(7) Operation Unit Cost	(8) Modeled Unit Cost
<b>Outgoing Primary</b>								
Manual	0	812	\$25.445	3.1336	1.3720	-0.1316	4.1677	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0000
<b>Outgoing Secondary</b>								
Manual	0	691	\$25.445	3.6823	1.3720	-0.1547	4.8975	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0000
<b>AADC Distribution</b>								
Manual	0	759	\$25.445	3.3524	1.3720	-0.1408	4.4587	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0000
<b>SCF Operations</b>								
Manual	0	896	\$25.445	2.8398	1.3720	-0.1193	3.7770	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0000
<b>Incoming Primary</b>								
Manual	1,105	562	\$25.445	4.5276	1.3720	-0.1902	6.0217	0.6656
MLOCR	9,537	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.6778
RBCS Images Processed	3,323	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.5823
LMLM	196	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0141
BCS-OSS	3,216	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.1145
MPBCS	794	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0404
<b>Incoming Secondary</b>								
Manual MODs Sites	1,637	646	\$25.445	3.9389	1.3720	-0.1654	5.2387	0.8577
Manual Non-Auto Sites	1,557	1,143	\$25.445	2.2261	1.3720	-0.0935	2.9607	0.4610
MPBCS	2,137	6,633	\$25.445	0.3836	1.7190	-0.0161	0.6433	0.1375
DBCS First-Pass	5,412	7,467	\$25.445	0.3408	2.4340	-0.0143	0.8151	0.4411
DBCS Second-Pass	5,141	7,467	\$25.445	0.3408	2.4340	-0.0143	0.8151	0.4191
CSBCS First-Pass	1,216	17,124	\$25.445	0.1486	1.9480	-0.0062	0.2832	0.0344
CSBCS Second-Pass	1,198	17,124	\$25.445	0.1486	1.9480	-0.0062	0.2832	0.0339
CSBCS Third-Pass	1,186	17,124	\$25.445	0.1486	1.9480	-0.0062	0.2832	0.0336
<b>Other</b>								
Acceptance/Verification	10,000						0.1844	0.1844
<b>Sort to P. O. Boxes:</b>								
DPS	585	2,341	\$25.445	1.0868	1.3660	-0.0456	1.4389	0.0841
Non-DPS	380	1,171	\$25.445	2.1735	1.3660	-0.0913	2.8777	0.1095
%DPS	60.58%							

Figures in Columns [1], [2], [3], and [5] are reported in subsequent pages in this Appendix.

Column [4] = 1/Column [2] page 43 \* Column [3] page 42

Column [6] = Column [4] \* (premium pay factor page 42 - 1)

Column [7] = (Column [4] \* Column [5] page 42) + Column [6]

Column [8] = Column [7] \* Column [1] mail flow / 10,000

<b>MODEL COST</b>	<b>4.8910</b>
<b>PROPORTIONAL ADJ.</b> Exhibit USPS-28	<b>1.0661</b>
<b>FIXED ADJUSTMENT</b> Exhibit USPS-28A	<b>0.7737</b>
<b>TOTAL UNIT COST</b>	<b>5.9879</b>

TABLE IV

Test Year Standard (A) Regular Non-OCR 3/5-Digit Presort Letters Cost Summary  
"CONSTANT MAKEUP"

	[1] Mix of Handlings	[2] Pieces per Hour	[3] Wage Rate	[4] Direct Labor Cents/Piece	[5] Piggyback Factor	[6] Premium Pay Adj.	[7] Operation Unit Cost	[8] Modeled Unit Cost
<b>Outgoing Primary</b>								
Manual	0	812	\$25.445	3.1336	1.3720	-0.1316	4.1677	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0000
<b>Outgoing Secondary</b>								
Manual	0	691	\$25.445	3.6823	1.3720	-0.1547	4.8975	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0000
<b>ADC Distribution</b>								
Manual	0	759	\$25.445	3.3524	1.3720	-0.1408	4.4587	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0000
<b>SCF Operations</b>								
Manual	0	896	\$25.445	2.8398	1.3720	-0.1193	3.7770	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0000
<b>Incoming Primary</b>								
Manual	6,213	562	\$25.445	4.5276	1.3720	-0.1902	6.0217	3.7412
MLOCR	4,301	7,350	\$25.445	0.3462	2.0950	-0.0145	0.7107	0.3057
RBCS Images Processed	1,891	816	\$14.919	1.8293	1.4500	-0.0768	1.7525	0.3314
LMLM	300	4,985	\$25.445	0.5104	1.4500	-0.0214	0.7187	0.0215
BCS-OSS	1,825	11,984	\$25.445	0.2123	1.7190	-0.0089	0.3561	0.0650
MPBCS	538	8,393	\$25.445	0.3032	1.7190	-0.0127	0.5084	0.0273
<b>Incoming Secondary</b>								
Manual MODs Sites	3,606	646	\$25.445	3.9389	1.3720	-0.1654	5.2387	1.8889
Manual Non-Auto Sites	3,484	1,143	\$25.445	2.2261	1.3720	-0.0935	2.9607	1.0314
MPBCS	914	6,633	\$25.445	0.3836	1.7190	-0.0161	0.6433	0.0588
DBCS First-Pass	2,315	7,467	\$25.445	0.3408	2.4340	-0.0143	0.8151	0.1887
DBCS Second-Pass	2,199	7,467	\$25.445	0.3408	2.4340	-0.0143	0.8151	0.1792
CSBCS First-Pass	520	17,124	\$25.445	0.1486	1.9480	-0.0062	0.2832	0.0147
CSBCS Second-Pass	512	17,124	\$25.445	0.1486	1.9480	-0.0062	0.2832	0.0145
CSBCS Third-Pass	507	17,124	\$25.445	0.1486	1.9480	-0.0062	0.2832	0.0144
<b>Other</b>								
Acceptance/Verification	10,000						0.1844	0.1844
<b>Sort to P. O. Boxes:</b>								
DPS	250	2,341	\$25.445	1.0868	1.3660	-0.0456	1.4389	0.0360
Non-DPS	715	1,171	\$25.445	2.1735	1.3660	-0.0913	2.8777	0.2058
Bundle Sorting Basic	0						0.7865	0.0000
%DPS	25.91%							

Figures in Columns [1], [2], [3], and [5] are reported in subsequent pages in this Appendix.

Column [4] = 1/Column [2] page 43 \* Column [3] page 42Column [6] = Column [4] \* (premium pay factor page 42 - 1)Column [7] = (Column [4] \* Column [5] page 42) + Column [6]Column [8] = Column [7] \* Column [1] mail row / 10,000

MODEL COST	8.3090
PROPORTIONAL ADJ. <small>Exhibit USPS-28A</small>	1.0661
FIXED ADJUSTMENT <small>Exhibit USPS-28A</small>	0.7737
TOTAL UNIT COST	9.6316

**Standard (A) Regular Entry Point Profile  
"CONSTANT MAKEUP"**

15.87%	<b>Automation And Upgradable Trays (no bundles)</b>			
	<b>Basic</b>	<b>32.57%</b>	<b>3/5</b>	<b>67.43%</b>
	<b>%</b>		<b>%</b>	
<b>OP</b>	43.91%		0.00%	
<b>AADC</b>	44.65%		0.00%	
<b>SCF</b>	11.44%		0.00%	
<b>IP</b>	0.00%		100.00%	
<b>IS(IP-OCR)</b>	0.00%		0.00%	
<b>IS</b>	0.00%		0.00%	
<b>Total</b>	100.00%		100.00%	
38.12%	<b>Non-OCR Trays (bundles) but does not fall Upgradable criteria</b>			
	<b>Basic</b>	<b>40.62%</b>	<b>3/5</b>	<b>59.38%</b>
	<b>%</b>		<b>%</b>	
<b>OP</b>	50.72%		0.00%	
<b>ADC</b>	25.23%		0.00%	
<b>SCF</b>	8.47%		0.00%	
<b>IP</b>	12.89%		48.42%	
<b>IS(IP-OCR)</b>	3.96%		43.55%	
<b>IS</b>	0.73%		8.03%	
<b>Total</b>	100.00%		100.00%	
46.00%	<b>Non-OCR Trays (bundles) and fails Upgradable criteria</b>			
	<b>Basic</b>	<b>40.62%</b>	<b>3/5</b>	<b>59.38%</b>
	<b>%</b>		<b>%</b>	
<b>OP</b>	43.91%		0.00%	
<b>ADC</b>	44.65%		0.00%	
<b>SCF</b>	11.44%		0.00%	
<b>IP</b>	0.00%		100.00%	
<b>IS(IP-OCR)</b>	0.00%		0.00%	
<b>IS</b>	0.00%		0.00%	
<b>Total</b>	100.00%		100.00%	
<b>% Machinable</b>	<b>44.40%</b>		<b>44.40%</b>	

This table uses tables C1 and C2 on page 37 of this appendix in performing calculations. For methodology, see Appendix IV of USPS-T-5 in Docket No. MC96-2.

TABLE VI

## Development and Summary of Standard (A) Nonprofit Mail Processing Costs ("CONSTANT MAKEUP")

	[1] Model Unit Cost	[2] Proportional Adjustment	[3] Fixed Adjustment	[4] Total Unit Cost	[5] Percent DPS	[6] Model Weights
Automation Basic	4.2985	0.8118	0.5854	4.0747	64.08%	14.47%
Automation 3-Digit	3.7417	0.8118	0.5854	3.6227	66.22%	31.69%
Automation 5-Digit	2.5299	0.8118	0.5854	2.6390	69.70%	15.79%
Presort Basic (UPGR Trays)	5.4234	0.8118	0.5854	4.9878	61.19%	2.81%
Presort Basic Upgr. ("CONSTANT MAKEUP")	5.4234	0.8118	0.5854	4.9878	60.80%	3.93%
Presort Basic Nonupgr ("CONSTANT MAKEUP")	10.6714	0.8118	0.5854	9.2479	20.96%	9.48%
Presort Basic (Weighted Average)	8.4910	0.8118	0.5854	7.4780	37.58%	16.21%
Presort 3/5 Upgr. ("CONSTANT 3-D MAKEUP")	4.9182	0.8118	0.5854	4.5777	61.85%	2.50%
Presort 3/5 Upgr. ("CONSTANT 3-D MAKEUP")	4.9182	0.8118	0.5854	4.5777	61.85%	5.66%
Presort 3/5 Nonupgr ("CONSTANT 3-D MAKEUP")	8.9224	0.8118	0.5854	7.8282	21.05%	13.67%
Presort 3/5 (Weighted Average)	7.4255	0.8118	0.5854	6.6130	36.30%	21.83%

NP MODEL COST WEIGHTED AVERAGE <sup>1</sup>	5.2052
Proportional Cost Pools (page 2)	4.0356
CRA Proportional Adjustment	0.8118
CRA Fixed Adjustment (page 2)	0.5854

Automation Basic NECR <sup>2</sup>	0.3085	52.90%	100.00%
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<sup>1</sup> NP Model Cost Weighted Average = Column [1] \* Column [6]<sup>2</sup> Automation Basic NECR Model Cost is from Appendix III at page 9.

[1] Model Unit Cost from Cost Summary Sheets in Appendix III.

[2] Proportional Cost Pools from Exhibit USPS-29B at page 2 divided by NP Model Cost Weighted Average

[3] Fixed Cost Pools from Exhibit USPS-29B at page 2.

[4] Total Unit Cost = Column [1] \* Column [2] + Column [3].

[5] DPS Percentages from Cost Summary Sheets in Appendix III.

[6] Model Weights are percent shares of each rate category based on TY Before Rates Volume Forecast and within the Presort Rate categories according to percentages in the Mail Characteristics Study (USPS LR-H-195).



Test Year Standard (A) Nonprofit Non-OCR Upgradable Basic Letters Cost Summary  
"CONSTANT MAKEUP"

	[1] Mix of Handlings	[2] Pieces per Hour	[3] Wage Rate	[4] Direct Labor Cents/Piece	[5] Piggyback Factor	[6] Premium Pay Adj.	[7] Operation Unit Cost	[8] Modeled Unit Cost
<b>Outgoing Primary</b>								
Manual	3,195	812	\$25.445	3.1336	1.372	-0.1316	4.1677	1.332
MLOCR	1,751	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.124
RBCS Images Processed	968	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.170
LMLM	124	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.009
BCS-OSS	945	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.034
MPBCS	147	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.007
<b>Outgoing Secondary</b>								
Manual	512	691	\$25.445	3.6823	1.372	-0.1547	4.8975	0.251
MPBCS	355	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.018
<b>ADC Distribution</b>								
Manual	4,166	759	\$25.445	3.3524	1.372	-0.1408	4.4587	1.857
MLOCR	1,520	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.108
RBCS Images Processed	841	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.147
LMLM	108	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.008
BCS-OSS	820	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.029
MPBCS	437	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.022
<b>SCF Operations</b>								
Manual	3,250	896	\$25.445	2.8398	1.372	-0.1193	3.7770	1.228
MLOCR	365	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.026
RBCS Images Processed	180	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.032
LMLM	23	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.002
BCS-OSS	176	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.006
MPBCS	667	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.034
<b>Incoming Primary</b>								
Manual	1,821	562	\$25.445	4.5276	1.372	-0.1902	6.0217	1.097
MLOCR	0	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.000
RBCS Images Processed	0	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.000
LMLM	0	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.000
BCS-OSS	0	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.000
MPBCS	470	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.024
<b>Incoming Secondary</b>								
Manual All Sites	4,328	646	\$25.445	3.9389	1.372	-0.1654	5.2387	2.267
Manual MODs Sites	3,332	1,143	\$25.445	2.2261	1.372	-0.0935	2.9607	0.987
MPBCS	723	6,633	\$25.445	0.3836	1.719	-0.0161	0.6433	0.047
DBCS First-Pass	1,872	7,467	\$25.445	0.3408	2.434	-0.0143	0.8151	0.153
DBCS Second-Pass	1,779	7,467	\$25.445	0.3408	2.434	-0.0143	0.8151	0.145
CSBCS First-Pass	421	17,124	\$25.445	0.1486	1.948	-0.0062	0.2832	0.012
CSBCS Second-Pass	414	17,124	\$25.445	0.1486	1.948	-0.0062	0.2832	0.012
CSBCS Third-Pass	410	17,124	\$25.445	0.1486	1.948	-0.0062	0.2832	0.012
<b>Other</b>								
Acceptance/Verification	10,000						0.2664	0.266
<b>Sort to P. O. Boxes:</b>								
DPS	169	2,341	\$25.445	1.0868	1.366	-0.045644	1.4389	0.024
Non-DPS	638	1,171	\$25.445	2.1735	1.366	-0.091287	2.8777	0.184
Bundle Sorting Basic	0						1.6668	0.000
%DPS	20.96%							

Figures in Columns [1], [2], [3], and [5] are reported in subsequent pages in this Appendix.

Column [4] = 1/Column [2] page 43 \* Column [3] page 42Column [6] = Column [4] \* (premium pay factor page 42 - 1)Column [7] = (Column [4] \* Column [5] page 42) + Column [6]Column [8] = Column [7] \* Column [1] mail flow / 10,000

<b>MODEL COST</b>	<b>10.6714</b>
<b>PROPORTIONAL ADJ.</b> <small>Exhibit USPS-298</small>	<b>0.8118</b>
<b>FIXED ADJUSTMENT</b> <small>Exhibit USPS-298</small>	<b>0.5854</b>
<b>TOTAL UNIT COST</b>	<b>9.2479</b>

Test Year Standard (A) Nonprofit Upgradable Tray 3/5-Digit Presort Letters Cost Summary  
"CONSTANT MAKEUP"

	[1] Mix of Handlings	[2] Pieces per Hour	[3] Wage Rate	[4] Direct Labor Cents/Piece	[5] Piggyback Factor	[6] Premium Pay Adj.	[7] Operation Unit Cost	[8] Modeled Unit Cost
<b>Outgoing Primary</b>								
Manual	0	812	\$25.445	3.1336	1.372	-0.1316	4.1677	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0000
<b>Outgoing Secondary</b>								
Manual	0	691	\$25.445	3.6823	1.372	-0.1547	4.8975	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0000
<b>AADC Distribution</b>								
Manual	0	759	\$25.445	3.3524	1.372	-0.1408	4.4587	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0000
<b>SCF Operations</b>								
Manual	0	896	\$25.445	2.8398	1.372	-0.1193	3.7770	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0000
<b>Incoming Primary</b>								
Manual	1,068	562	\$25.445	4.5276	1.372	-0.1902	6.0217	0.6429
MLOCR	9,566	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.6799
RBCS Images Processed	3,358	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.5885
LMLM	198	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.0142
BCS-OSS	3,250	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.1157
MPBCS	798	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0406
<b>Incoming Secondary</b>								
Manual MODs Sites	1,641	646	\$25.445	3.9389	1.372	-0.1654	5.2387	0.8596
Manual Non-Auto Sites	1,453	1,143	\$25.445	2.2261	1.372	-0.0935	2.9607	0.4302
MPBCS	2,135	6,633	\$25.445	0.3836	1.719	-0.0161	0.6433	0.1374
DBCS First-Pass	5,525	7,467	\$25.445	0.3408	2.434	-0.0143	0.8151	0.4504
DBCS Second-Pass	5,249	7,467	\$25.445	0.3408	2.434	-0.0143	0.8151	0.4279
CSBCS First-Pass	1,242	17,124	\$25.445	0.1486	1.948	-0.0062	0.2832	0.0352
CSBCS Second-Pass	1,223	17,124	\$25.445	0.1486	1.948	-0.0062	0.2832	0.0346
CSBCS Third-Pass	1,211	17,124	\$25.445	0.1486	1.948	-0.0062	0.2832	0.0343
<b>Other</b>								
Acceptance/Verification	10,000						0.2664	0.2664
<b>Sort to P. O. Boxes:</b>								
DPS	499	2,341	\$25.445	1.0868	1.366	-0.0456	1.4389	0.0718
Non-DPS	308	1,171	\$25.445	2.1735	1.366	-0.0913	2.8777	0.0886
<b>%DPS</b>	<b>61.85%</b>							

Figures in Columns [1], [2], [3], and [5] are reported in subsequent pages in this Appendix.

Column [4] = 1/Column [2] page 43 \* Column [3] page 42Column [6] = Column [4] \* (premium pay factor page 42 - 1)Column [7] = (Column [4] \* Column [5] page 42) + Column [6]Column [8] = Column [7] \* Column [1] mail flow / 10,000

<b>MODEL COST</b>	<b>4.9182</b>
<b>PROPORTIONAL ADJ.</b> <small>Exhibit USPS-29B</small>	<b>0.8118</b>
<b>FIXED ADJUSTMENT</b> <small>Exhibit USPS-29B</small>	<b>0.5854</b>
<b>TOTAL UNIT COST</b>	<b>4.5777</b>

Test Year Standard (A) Nonprofit Non-OCR Upgradable 3/5-Digit Presort Letters Cost Summary  
"CONSTANT MAKEUP"

	[1] Mix of Handlings	[2] Pieces per Hour	[3] Wage Rate	[4] Direct Labor Cents/Piece	[5] Piggyback Factor	[6] Premium Pay Adj	[7] Operation Unit Cost	[8] Modeled Unit Cost
<b>Outgoing Primary</b>								
Manual	0	812	\$25.445	3.1336	1.372	-0.1316	4.1677	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0000
<b>Outgoing Secondary</b>								
Manual	0	691	\$25.445	3.6823	1.372	-0.1547	4.8975	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0000
<b>ADC Distribution</b>								
Manual	0	759	\$25.445	3.3524	1.372	-0.1408	4.4587	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0000
<b>SCF Operations</b>								
Manual	0	896	\$25.445	2.8398	1.372	-0.1193	3.7770	0.0000
MLOCR	0	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.0000
RBCS Images Processed	0	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.0000
LMLM	0	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.0000
BCS-OSS	0	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.0000
MPBCS	0	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0000
<b>Incoming Primary</b>								
Manual	6,973	562	\$25.445	4.5276	1.372	-0.1902	6.0217	4.1991
MLOCR	3,431	7,350	\$25.445	0.3462	2.095	-0.0145	0.7107	0.2438
RBCS Images Processed	1,519	816	\$14.919	1.8293	1.450	-0.0768	1.7525	0.2663
LMLM	241	4,985	\$25.445	0.5104	1.450	-0.0214	0.7187	0.0173
BCS-OSS	1,467	11,984	\$25.445	0.2123	1.719	-0.0089	0.3561	0.0522
MPBCS	431	8,393	\$25.445	0.3032	1.719	-0.0127	0.5084	0.0219
<b>Incoming Secondary</b>								
Manual MODs Sites	4,397	646	\$25.445	3.9389	1.372	-0.1654	5.2387	2.3034
Manual Non-Auto Sites	3,253	1,143	\$25.445	2.2261	1.372	-0.0935	2.9607	0.9632
MPBCS	726	6,633	\$25.445	0.3836	1.719	-0.0161	0.6433	0.0467
DBCS First-Pass	1,880	7,467	\$25.445	0.3408	2.434	-0.0143	0.8151	0.1532
DBCS Second-Pass	1,786	7,467	\$25.445	0.3408	2.434	-0.0143	0.8151	0.1456
CSBCS First-Pass	423	17,124	\$25.445	0.1486	1.948	-0.0062	0.2832	0.0120
CSBCS Second-Pass	416	17,124	\$25.445	0.1486	1.948	-0.0062	0.2832	0.0118
CSBCS Third-Pass	412	17,124	\$25.445	0.1486	1.948	-0.0062	0.2832	0.0117
<b>Other</b>								
Acceptance/Verification	10,000						0.2664	0.2664
Sort to P. O. Boxes:								
DPS	170	2,341	\$25.445	1.0868	1.366	-0.0456	1.4389	0.0244
Non-DPS	637	1,171	\$25.445	2.1735	1.366	-0.0913	2.8777	0.1834
Bundle Sorting Basic	0						0.8147	0.0000
%DPS	21.05%							

Figures in Columns [1], [2], [3], and [5] are reported in subsequent pages in this Appendix

Column [4] = 1/Column [2] page 43 \* Column [3] page 42

Column [6] = Column [4] \* (premium pay factor page 42 - 1)

Column [7] = (Column [4] \* Column [5] page 42) + Column [6]

Column [8] = Column [7] \* Column [1] row flow / 10,000

<b>MODEL COST</b>	<b>8.9224</b>
<b>PROPORTIONAL ADJ.</b> Exhibit USPS-298	<b>0.8118</b>
<b>FIXED ADJUSTMENT</b> Exhibit USPS-298	<b>0.5854</b>
<b>TOTAL UNIT COST</b>	<b>7.8282</b>

TABLE X

**Standard (A) Nonprofit Entry Point Profile**

13.95%	<b>Automation And Upgradable Trays (no bundles)</b>			
	<b>Basic</b>	<b>52.93%</b>	<b>3/5</b>	<b>47.07%</b>
	<b>%</b>		<b>%</b>	
OP	47.83%		0.00%	
AADC	41.53%		0.00%	
SCF	10.64%		0.00%	
IP	0.00%		100.00%	
IS(IP-OCR)	0.00%		0.00%	
IS	0.00%		0.00%	
<b>Total</b>	<b>100.00%</b>		<b>100.00%</b>	

25.22%	<b>Non-OCR Trays (bundles) but does not fall Upgradable criteria</b>			
	<b>Basic</b>	<b>40.94%</b>	<b>3/5</b>	<b>59.06%</b>
	<b>%</b>		<b>%</b>	
OP	66.03%		0.00%	
ADC	19.15%		0.00%	
SCF	4.91%		0.00%	
IP	7.87%		49.96%	
IS(IP-OCR)	1.25%		42.85%	
IS	0.31%		7.28%	
<b>Total</b>	<b>100.00%</b>		<b>100.00%</b>	

60.84%	<b>Non-OCR Trays (bundles) and fails Upgradable criteria</b>			
	<b>Basic</b>	<b>40.94%</b>	<b>3/5</b>	<b>59.06%</b>
	<b>%</b>		<b>%</b>	
OP	47.83%		0.00%	
ADC	41.53%		0.00%	
SCF	10.64%		0.00%	
IP	0.00%		100.00%	
IS(IP-OCR)	0.00%		0.00%	
IS	0.00%		0.00%	
<b>Total</b>	<b>100.00%</b>		<b>100.00%</b>	
<b>% Machinable</b>	<b>35.30%</b>		<b>35.30%</b>	

These tables use tables C1 and C2 on page 37 of this appendix in performing calculations. For methodology, see Appendix IV of USPS-T-5 in Docket No. MC96-2.

## DECLARATION

I, Sharon Daniel, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
SHARON DANIEL

Dated: September 22, 1997

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 4.

In Docket No. R87-1, the Postal Service proposed to decrease the proportion of revenue obtained from the pound rate for regular Periodicals to 40 percent. This was proposed along with evidence suggesting that the proportion should be even lower. The Commission recommended the 40 percent level and suggested that further study should be given to this question. In Docket No. R90-1, the Postal Service proposed to maintain the 40 percent level but did not provide a study. In recommending the 40 percent level, the Commission noted again the need for studying the issue further. In Dockets No. R94-1 and MC95-1, the 40 percent level was maintained and the need for further study was again noted. In this case, the Postal Service has proposed to increase the proportion to 41 percent. No study is provided. The only justification for the 41 percent level is a statement by witness Taufique that "the pound rate revenue is proposed to generate 41 percent of total revenue, compared to 40 percent in the past." (USPS-T-34 at 13.)

The Commission notes that the Revenue Forgone Reform Act requires that the advertising pound rates for Regular Periodicals be applied to Nonprofit Periodicals and Classroom Periodicals. Therefore, the level of the advertising pound rates in Regular Periodicals, which is affected by the proportion of the revenue obtained from the pound rates, takes on more importance than in the past. In order that the record may be as robust as possible on this issue, the Postal Service is asked to provide any evidence available supporting its proposal to set the proportion at 41 percent.

RESPONSE

The change in the percent of revenue to be collected from pound rates in regular rate Periodicals, i.e. from 40 percent to 41 percent, does not reflect a policy change on part of the Postal Service, and was not a result of any cost study relating weight to the cost of Periodicals. Rather, it was one of the steps taken in the proposed rate design to mitigate the effect of the proposed rate increase by keeping the rate increases and reductions for each cell in a relatively tight range around the average increase (plus or minus 10 percent of current rates).

**RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3**

POIR No. 3, Question 4, Page 2 of 2

The attached table shows the effect of this split on piece rates. This table was developed by changing only the piece/pound split assumption, everything else remaining constant.

DESCRIPTION	59/41 SPLIT AS PROPOSED			60/40 SPLIT		
	PIECE RATES			PIECE RATES		
	Proposed	Current	% Change	Alternate	Current	% Change
BASIC NON-AUTOMATION	0.263	0.24	9.6%	0.265	0.240	10.4%
BASIC AUTOMATION LETTER	0.182	0.194	-6.2%	0.184	0.194	-5.2%
BASIC AUTOMATION FLAT	0.221	0.209	5.7%	0.223	0.209	6.7%
NON-AUTOMATION 3 DIGIT	0.217	0.202	7.4%	0.219	0.202	8.4%
AUTOMATION 3 DIGIT LETTER	0.166	0.173	-4.0%	0.168	0.173	-2.9%
AUTOMATION 3 DIGIT FLAT	0.188	0.175	7.4%	0.190	0.175	8.6%
NON-AUTOMATION 5 DIGIT	0.214	0.202	5.9%	0.216	0.202	6.9%
AUTOMATION 5 DIGIT LETTER	0.162	0.173	-6.4%	0.164	0.173	-5.2%
AUTOMATION 5 DIGIT FLAT	0.186	0.175	6.3%	0.188	0.175	7.4%
CARRIER ROUTE BASIC	0.128	0.119	7.6%	0.130	0.119	9.2%
CARRIER ROUTE HIGH DENSITY	0.116	0.111	4.5%	0.118	0.111	6.3%
CARRIER ROUTE SATURATION	0.102	0.095	7.4%	0.104	0.095	9.5%

As can be seen from this comparison, the 59/41 split mitigated some relatively large increases.

Given our desire to mitigate rate increases, while at the same time improving rate design, especially through the split of 3-digit and 5-digit presort levels, this relatively small shift from the traditional approach was considered to be in the best interest of this subclass.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 5.

The zone distribution factors shown in column F of Workpaper RR-G, page 2, of witness Taufique do not include recognition of Science-of-Agriculture pounds. Yet the transportation costs distributed with these factors do cover Science-of-Agriculture mail. Please explain why it is appropriate to omit recognition of Science-of-Agriculture pounds from the distribution of the transportation costs.

RESPONSE

It is not appropriate to omit recognition of Science-of-Agriculture pounds from the distribution of transportation costs, and these pounds are recognized for all the zones except the first three rate cells: DDU, DSCF and Zones 1&2. The goal was to treat the revenue from these three rate cells separately in the calculation of target revenues for pound rate calculation, but this treatment was incorrectly omitted. The issue of revenue from advertising pounds in Science of Agriculture publications in Zones 1&2, SCF and DDU is addressed in question number 7.



RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 6.

Workpaper RR-G, page 3, of witness Taufique, shows the removal of 1.2 cents per pound from the advertising rates for zones 7 and 8. Consistent with the proposal to obtain 41 percent of the revenue from the pound rates, please explain where the revenue loss attendant to the 1.2 cent reduction is recovered.

RESPONSE

The revenue loss attendant to the removal of 1.2 cents from the advertising pound rates for zones 7 and 8 are not explicitly recovered in the proposed rate design. In order to keep the rates in a rather tight band around the average (plus or minus 10 percent, overall increase or reduction), this exogenous adjustment was made and did not materially affect the resulting cost coverage. The resulting cost coverage after this and other exogenous adjustments is 0.2 percent below the target.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 7.

Workpaper RR-G shows the target revenue from the pound rates on line 5 (page 1) and shows the actual revenue obtained on line 95 (page 3). Consistent with the goal of obtaining the target revenue and thereby of obtaining 41 percent of the revenue from the pound rates, please explain where account is taken of the revenue from the advertising in Science-of-Agriculture publications in Zones 1&2, SCF, and DDU.

RESPONSE

The recognition of revenue from advertising pounds in Science of Agriculture publications in Zones 1&2, SCF, and DDU is omitted in the proposed rate design. Revenue from these cells could have been initially subtracted from the target pound revenues and recognized in the explained pound revenues after the derivation of pound rates.

If this revenue was accounted for as suggested in the previous paragraph, the pound rates would change slightly in the following cells:

Workpaper RR-L, Page 1

RATE ELEMENT	PROPOSED RATES	RATES AFTER CHANGE
Zoned Advertising Zones 1 & 2	\$0.203	\$0.202
Zoned Advertising Zone 5	\$0.305	\$0.304
Zoned Advertising Zone 6	\$0.361	\$0.360
Zoned Advertising Zone 7	\$0.416	\$0.415
Zoned Advertising Zone 8	\$0.474	\$0.472

The piece rates would not change due to rounding of the final rates, even though the target revenue from pieces would be reduced from \$993,389,408 to \$993,245,989.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 8.

Workpaper RR-J, page 1, of witness Taufique shows the subtraction of 0.1 cents per piece from the piece rate for basic non-automation Regular Periodicals, at line 31. Because all of the other piece rates are obtained by subtracting a discount from this basic nonautomation piece rate, this subtraction reduces all piece rates by 0.1 cents. Consistent with the goal of obtaining 59 percent of the revenue from the piece rates and of obtaining a target cost coverage of 107 percent, please explain where the revenue loss attendant to the 0.1 cent reduction is recovered.

RESPONSE

The revenue loss attendant to the removal of 0.1 cents per piece from the piece rate for basic nonautomation rate and the subsequent reduction in all the other piece rates is not explicitly recovered in the proposed rate design. In order to keep the rates in a relatively tight band around the average (plus or minus 10 percent, overall increase or reduction), this exogenous adjustment was made and did not materially affect the resulting cost coverage. As stated in the response to question 6, the resulting cost coverage after this and other exogenous adjustments is 0.2 percent below the target.

RESPONSE OF UNITED STATES POSTAL SERVICE WITNESS TAUFIQUE  
TO PRESIDING OFFICER INFORMATION REQUEST NUMBER 3

Question 9.

In Docket No. R90-1, the Postal Service proposed to give the SCF discount and the DDU discount for Periodicals entirely on a per-pound basis. That proposal was based on arguments that the savings were largely pound oriented. The Commission recommended that the transportation cost savings be given on a per-pound basis and that the nontransportation cost savings be given 50 percent on a pound basis and 50 percent on a piece basis. The 50-50 split for nontransportation costs was maintained through Dockets No. R94-1 and MC95-1. In this case, the Postal Service has proposed to recognize the nontransportation costs entirely on a per-piece basis. As explained by witness Taufique (USPS-T-34 at 19): "Recognition of non-transportation drop shipment cost savings ... for the destination delivery unit (DDU) and DSCF is proposed for piece rates exclusively. This is a break from the past practice of splitting these savings between piece and pound rates." In addition to the sentence just quoted, please provide any evidence or study available to support the proposal to recognize the nontransportation costs entirely on a per-piece basis.

RESPONSE

The decision to recognize non-transportation drop shipment cost savings only in the piece rates and not in the pound rates does not reflect a change in policy on part of the Postal Service. The purpose was to keep increases or reduction in each of the cells below 10 percent.

The proposed pound rates for the destination delivery unit (DDU) and the destination sectional center facility (DSCF) are \$0.158 and \$0.180 respectively, 6.5 and 5.3 percent reductions from the current rates of \$0.169 and \$0.190. Application of non-transportation drop shipment cost savings provided in LR-H-111 to further reduce these two pound rates would have resulted in greater increases in zones 6 through 8.

## DECLARATION

I, Altaf H. Taufique, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
ALTAF H. TAUFIQUE

Dated: 9/22/97

10. Bulk Bound Printed Matter

- a. The total revenue for FY 1996, before adjustment, is shown to be \$393,163,080 both in Workpaper BPM5 of USPS-T-38 and in the Billing Determinants, page H-2. However, the same revenue is shown to be \$394,316,597 in Library Reference H-172, STBBP96A (\$394,463,133 with the included adjustment factor of 1.00037162 removed).
  - (1) Please explain this discrepancy, and make any necessary corrections.
  - (2) Using the correct revenue, please show the development of the correct adjustment factor.

**Response:**

a.(1) The development of the Bound Printed Matter billing determinants uses several different data sources, including the Domestic Probability System and the PERMIT system. The Domestic Probability System is used to obtain the weight and zone distribution of stamped and metered mail, whereas the distributions by zone of volume, revenue and weight of bulk mail entered as permit imprint are extracted from the PERMIT system. The distributions for stamped and metered and permit imprint Bound Printed Matter are merged and then tied to the RPW fiscal year figures to create the billing determinants.

The volume and weight figures presented in Workpaper BPM5 of USPS-T-38, the billing determinants for FY 1996 at page H-2, and Library Reference H-172 are consistent. The revenue estimates differ. In the development of revenue estimates in Library Reference H-172, the stamped and metered and permit imprint volumes were merged together, and the rate elements were applied to those combined volume figures to calculate the combined revenues. In the development of the billing determinants, the rate elements were applied to the stamped and metered volumes to obtain the calculated revenue associated with that volume. The calculated stamped and metered revenue was then added to the permit imprint revenue figure obtained from the RPW revenue adjustment reports. Thus, the permit imprint revenue had an effective revenue adjustment factor of 1.00, but was merged with the calculated revenue for stamped and metered mail that had an effective revenue adjustment factor that was not 1.0. The result was that the revenue figure reported in the billing determinants was a hybrid of two different approaches to reporting revenue.

Response of Witness Mayes to Presiding Officer's Information Request No. 3

The method of revenue estimation used in Library Reference H-172 maintains an internally consistent approach to revenue calculation. This would be appropriate for applications in which the volumes and weights – regardless of source – are used in combination with a given set of rate elements. The results of the adoption of this method may be obtained in the billing determinants or in Workpaper BPM5 of USPS-T-38 by applying the rate elements to the combined volumes and weights by zone as reported, and yields the same total unadjusted revenue figure as developed in Library Reference H-172. The new revenue adjustment factor is then 0.997445174. This would be appropriate for application in which the combined volumes and weights are used with the rate elements.

a.(2) The revenue adjustment factor is calculated by deriving a revenue figure by multiplying the rate elements by the appropriate volumes or weights, as shown in Library Reference H-172, and then dividing that calculated revenue into the reported total bulk Bound Printed Matter RPW revenue. The correct revenue adjustment factor for bulk Bound Printed Matter in FY 1996 is 0.997445174.

Response of Witness Mayes to Presiding Officer's Information Request No. 3

11. Please reconcile the parcel post volume distributions shown in the FY 1996 Billing Determinants (and used in USPS-T-37, Workpaper 1.A, pages 2 to 7) with those shown in USPS LR-H-172 STBA96A, STBR96A, and STBD96A.

	<u>FY 96 Billing Determinants</u>	<u>LR-H-172</u>
Intra-BMC	46,007,028	45,995,137
Inter-BMC	66,223,149	66,256,008
DBMC	<u>96,406,682</u>	<u>96,378,414</u>
	208,636,859	208,629,559

Response:

As Docket No. R97-1 was being prepared, it became necessary to revise the billing determinants for Parcel Post. These final distributions were completed in time to be incorporated into the rate design workpapers, but not in time to be provided to the volume forecasters for incorporation into the development of the TYBR forecast. Thus, the figures shown in LR H-172 were the preliminary billing determinants available prior to the revision. The volume distributions provided in the FY 96 Billing Determinants and at pages 2 through 7 of workpaper WP 1.A. of USPS-T-37 are the final volume distributions.



Response of Witness Mayes to Presiding Officer's Information Request No. 3

12. Please reconcile the revenue adjustment factors shown on USPS-T-37, Workpaper 1.D, page 7, with those shown in USPS-LR-H-172, STBA96A, STBR96A, and STBD96A.


	<u>USPS-T-37</u>	<u>LR-H-172</u>
Intra-BMC	1.0197236	1.019987
Inter-BMC	0.9828643	0.982376
DBMC	1.00066296	1.000956

**Response:**

As was described in the response to question 11 of the Presiding Officer's Information Request No. 3 above, the billing determinants for Parcel Post were revised subsequent to the inclusion of the preliminary billing determinants into the volume forecasting spreadsheets. The revenue adjustment figures shown in Library Reference H-172 were appropriate for use with the volume distribution figures used there. However, when the revised billing determinants are substituted for the preliminary billing determinants, the revenue adjustment factors shown at page 7 of workpaper WP 1.D. of USPS-T-37 should be used.

# DECLARATION

I, Virginia J. Mayes, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
Virginia J. Mayes

Dated: 9-22-97

Response of Witness Tolley to Presiding Officer's Information Request No. 3

10b. Please explain why the total adjusted revenues in cell S75 [sic] of Library Reference H-172, STBBP96A do not reflect the revenue loss from the proposed prebarcode discount of \$3,402,961 listed in cell S72.

Response:

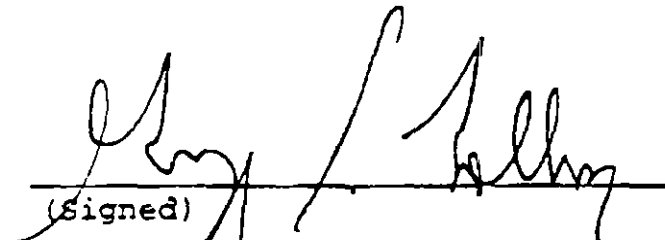
The formula shown in cell S74, total adjusted revenues, is incorrect. The formula for cell S74 should read:

`@SUM(S48..S72)*$D$3`

which includes the lost revenue from the proposed prebarcode discount. This results in a total adjusted revenue of \$412,042,086.

DECLARATION

I, George Tolley, declare under penalty of perjury that the foregoing answers are true and correct to the best of my knowledge, information and belief.

  
\_\_\_\_\_  
(Signed)  
9-22-97  
\_\_\_\_\_  
(Date)

Response of United States Postal Service Witness Patelunas  
to Presiding Officer's Information Request  
Number 3.

13. The response to POIR No. 1, question 1.a.(2) did not address the adjustment to the level of Alaskan nonpriority air attributable costs made by the Commission in dockets since R90-1. The Commission's adjustment was made so that parcel post rates for all mailers did not have to be raised to recover the high cost of intra-Alaskan air transportation. A portion of the high cost for Alaskan air transportation was deemed to be caused by a requirement of the universal service obligation, and thus an institutional cost to be borne by all mailers.

Please confirm that the level of Alaskan nonpriority air attributable costs has not been adjusted in a manner similar to that made by the Commission.

If you do not confirm, please explain where and how the adjustment is made.

13. Response.

It is confirmed that the level of Alaska nonpriority air volume variable costs have not been adjusted in a manner similar to that made by the Commission.

Response of United States Postal Service Witness Patelunas  
to Presiding Officer's Information Request  
Number 3.

33. The printout of member name VBL2 (the mail volume cost effect) in USPS Library Reference H4 at 531 lists the equipment distribution key OCR, component no. 963, three different times in two component lists under control string "06." Also, the square foot and rental value OCR distribution key, component no. 913, receives no mail volume cost adjustment, unlike the other square foot, rental value, and equipment distribution keys.

Please explain why the component no. 963 is listed as receiving a mail volume cost effect three times in VBL2 and also please explain why the component no. 913 does not receive a mail volume cost adjustment.

33. Response:

Equipment distribution key OCR, component no. 963, should have been listed only once and the square foot and rental value OCR distribution key, component no. 913, should have received a mail volume effect in VBL 2.

Response of United States Postal Service Witness Patelunas  
to Presiding Officer's Information Request  
Number 3.

34. USPS-T-1 5, Appendix A, describes the Cost Reductions and Other Programs and the distribution of cost savings from each of these programs for FY 1997, the Test Year Before Rates and the Test Year After Rates. The appendix, pages 6, 11, and 16, list the various Cost Reduction programs and Other Programs, and their distribution keys. These tables show three Remote Barcode System (RBCS) programs and their distribution keys. The Other Programs cost changes are distributed on the basis of the equipment distribution key "RBCS," component no. 924. However, the Cost Reductions affects related to these programs are distributed using equipment distribution key "LSM," component no. 916. It should be noted that in Docket No. MC96-3, the FY 1996 Cost Reductions effects for the RBCS programs were distributed using the equipment distribution key 'RBCS,' component no. 924.

Please explain why the equipment distribution key "LSM," component no. 916 was used to distribute the RBCS cost reductions in the roll-forward. If the use of component no. 916 to distribute the RBCS cost reductions programs is an error, please provide the correct distribution key component and the effect on costs for FY 1997, the Test Year Before Rates and the Test Year After Rates.

34. Response:

The equipment distribution key "LSM," component no. 916, is used to distribute the RBCS cost reductions in the roll-forward because the cost savings resulting from the use of the Remote Barcode System (RBCS) are LSM savings. The mail formerly processed on the more costly LSM is now processed on the less costly RBCS; hence, the savings are an LSM distribution key.

The equipment distribution key "RBCS," component no. 924, is used to distribute the RBCS other programs in the roll-forward model because the additional costs associated with the use of the RBCS are the result of processing mail on the RBCS; hence, the RBCS distribution key is the proper key to use.

Response of United States Postal Service Witness Patelunas  
to Presiding Officer's Information Request  
Number 3.

35. USPS-T-15, page 9, describes the treatment of indirect costs in the cost rollforward process. Witness Patelunas notes that "For each of these indirect costs, the direct cost or factor with which it varies is identified and treated in the same manner as in the Base Year 1996 cost presentation. The cost roll-forward indirect cost distributions are generally described in USPS Library Reference H-4 in member names VBL2 (Mail Volume cost effect), VBL3 (Non-volume Workload Effect), and VBL4 (Additional Workday effect), under control string "21."

There appear to be indirect costs in Cost Segment 12 which do not follow this general description. These are components 545, Personnel-vehicle service drivers, 550, supplies & materials-vehicle service drivers, and 568, vehicle hire, vehicle service drivers, which are identified and treated in the same manner as component 57, Vehicle Service Drivers in the base year. However, these components are not treated the same in the roll-forward process. An examination of member name VBL2 in USPS LR-4, page 534, shows the control string 21 and component 57, vehicle service drivers only affecting the component 675, supervision of vehicle service drivers and not the segment 12 components described above. The same situation applies to the segment 12 components identified as being indirectly variable to segment 10 rural carrier personnel.

Please explain why the indirect components noted above were left out of the rollforward process. If these components were supposed to be included please show the effect on costs for FY 1997, the Test Year Before Rates and the Test Year After Rates.

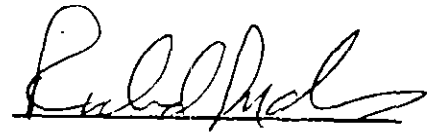
35. Response:

The indirect components noted in the question: 545, Personnel-vehicle service drivers, 550, Supplies & Materials-vehicle service drivers, and 568, Vehicle Hire-vehicle service drivers, should have been in the rollforward model. While checking on these components and their treatment in VBL's 2, 3 and 4, it was noticed that there are additional omissions. All of the components omitted in VBL's 2, 3 and 4 and the resulting effects on costs for FY 1997, the Test Year Before Rates and the Test Year After Rates will be filed in USPS Library Reference H-275, Materials Provided in Response to POIR No. 3, Question 35.



# DECLARATION

I, Richard Patelunas, declare under penalty of perjury that the foregoing answers to interrogatories are true and correct to the best of my knowledge, information, and belief.

A handwritten signature in dark ink, appearing to read "Richard Patelunas", written over a horizontal line.

Dated: 9/22/97

Response of United States Postal Service Witness Alevandrovich to Presiding  
Officer's Information Request No. 3, Question 14

14. As explained in response to POIR No. 1, question 1.b., the variability factors for the three air networks (Eagle, Western, and Christmas) as shown in Worksheet 14.0.1 reflect the removal of premium costs. The development of the Christmas network premium costs are shown in Library Reference H-85, Table 7, page 24.

Please provide the cite for the development of the other premiums or provide the costs per pound-mile, costs per pound, pound-miles, pounds, and any other data which are used in these calculations.

Please identify the witness or witnesses who will testify on these variabilities.

RESPONSE

The premiums for Eagle and Western Air are developed in Library Reference H-81. Witness Nieto is available to describe the mechanics of the calculation of the premium percentages. Witness Takis' testimony presents the economic rationale for calculating premiums in light of his incremental cost analysis. As indicated in my response to POIR No. 1, question 1.b., I am testifying to the volume variabilities of air transportation in Worksheet 14.0.1.

Response of United States Postal Service Witness Alexandrovich to Presiding  
Officer's Information Request No. 3, Question 15

15. According to the response to POIR No. 1, the premium costs for the three network operations are treated as institutional costs. Please provide the rationale and analyses that demonstrate the variability of costs of the three networks.

RESPONSE

I did not see in the response to POIR No. 1 where it states that the premium costs for the three networks are treated as an "institutional" cost. Nevertheless, the three networks are designed to operate, as close as practicable, to full capacity. This means that every additional pound of mail placed on a network flight displaces a pound of mail onto a commercial air flight. Since an additional pound of mail on a commercial air flight causes a proportional increase in commercial air costs, every additional pound of mail placed on a network flight has the same effect on accrued cost as an additional pound placed on a commercial flight. These costs are considered the nonpremium costs associated with the networks and are fully volume variable. The remaining, premium costs are treated as incremental costs to the subclasses for which the networks exist as discussed in witness Takis' testimony.

Response of United States Postal Service Witness Alexandrovich to Presiding  
Officer's Information Request No. 3, Question 17

17. In Docket No. R90-1, the Commission recommended a new treatment for Eagle network distribution keys. In Docket No. R94-1, witness Barker stated that the Eagle network keys shown in Worksheet 14.0.7, pages 1-4, reflected the Commission's R90-1 method. The adjustments were documented in Library Reference G-115, the TRACS Eagle Estimation Programs Overview. See Docket No. R94-1, Tr. 26E/14480-82.

In MC97-2, witness Patelunas confirmed that the Service used the Commission's methodology in the development of FY 1995 Eagle Network TRACS distribution keys shown in USPS-T-5, Workpaper B, Worksheet 14.0.3.

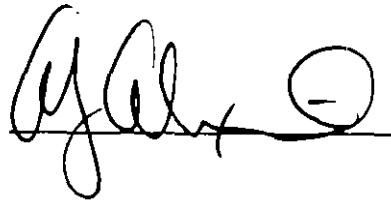
Do the Eagle network TRACS distribution keys shown in USPS-T-5, Workpaper 14.03, reflect the Docket No. R94-1 methodology? If yes, what adjustments were made in light of the change from cubic foot-miles to pound-miles as noted by witness Nieto, USPS-T-2, page 6.

RESPONSE

The Eagle network TRACS distribution keys shown in Workpaper 14.0.3 are used to distribute only nonpremium costs. The methodology used to distribute these nonpremium costs is consistent with the Commission's R94-1 distribution of nonpremium costs except for the fact that the TRACS network distribution keys in Workpaper 14.0.3 are based on pound-miles while the Commission's R94-1 keys use cubic-foot miles. The keys shown in Workpaper 14.0.3 do not include the Commission's R94-1 reallocation of premium cost to Priority and Express Mail, as premium costs are treated as incremental costs to the subclasses for which the networks exist as discussed in witness Takis' testimony.

## DECLARATION

I, Joe Alexandrovich, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

A handwritten signature in black ink, appearing to read 'Joe Alexandrovich', written over a horizontal line.

Dated: 9/22/97

RESPONSE OF POSTAL SERVICE WITNESS O'HARA  
TO POIR NO. 3

16. Please explain why the use of incremental costs as the basis for Express Mail rates provides a reasonable contribution to institutional costs in conformance with Section 3622(b)(3) of the Act.

RESPONSE:

The genesis of this question is unclear, as postal witnesses have tried to be consistent in maintaining that volume variable (i.e., marginal) costs, not incremental costs, provide the correct basis for setting rates. Moreover, in this case, the Postal Service is proposing rates for Express Mail that are substantially in excess of both volume variable and incremental costs.

The question may relate to the fact that witness Bernstein, in developing Ramsey prices, encountered a situation in which the unconstrained Ramsey price of Express Mail would have been below its incremental cost. In response to this situation, witness Bernstein set the constrained Ramsey price for Express Mail at the level of its incremental cost. Please see USPS-T-31 at 60-61. Of course, neither witness Bernstein, nor any other postal witness, is proposing that the Commission recommend without adjustment the Ramsey prices that he has developed.

Or perhaps this question may relate to a purely hypothetical situation in which the Commission determined, based on its assessment of all other factors of the Act (i.e., fairness and equity, value of service, impact on mailers and competitors, availability of alternatives, etc.), that the best possible rates for Express Mail would be rates set at (or as close as practicable to) the level of incremental costs, but wondered whether such rates could provide a reasonable contribution to other costs as required by section 3622(b)(3). The answer to this hypothetical question would

appear to be yes, they could.

For example, if the current relationship between Express Mail volume variable costs and incremental costs continues to hold (i.e., incremental costs substantially in excess of volume variable costs), at rates set at the incremental cost level, each additional piece of Express Mail would be generating additional revenue substantially in excess of the additional expenses incurred to handle that piece. So, in this respect, the contribution could be "reasonable."

Obviously, the contribution could also be "reasonable" in the sense that it is non-negative. That is to say, if it is per se unreasonable for a subclass to fail to cover its incremental costs, the hypothesized rates would not be unreasonable on that basis. With respect to the other end of the zone of reasonableness, under this hypothetical, there is no reason to believe that the contribution would be unreasonably high.

Under the circumstances of the hypothetical as stated above, Express Mail rates supported by consideration of all other ratemaking criteria of the Act and set directly at the level of incremental costs could be construed to meet the minimum standards of section 3622(b)(3) for the following reasons:

1. Express Mail service would cover all of its costs and not be a burden to other mailers.
2. Additional volume of Express Mail would generate net revenue to the benefit of other mailers.
3. Express Mail service would continue to generate consumer surplus for some of its customers (those who value this service enough that they would be willing to purchase Express Mail service at even higher rates).
4. Express Mail would continue to exist as an option for all postal customers to utilize under circumstances in which it best fills their needs and/or serves their convenience.

5. The continued existence of Express Mail might serve as a limiting factor on the potential ability of other overnight service providers to exploit their customers.

It bears repeating, however, that the Postal Service's proposed Express Mail rates in this case are well in excess of both volume variable and incremental costs.



# DECLARATION

I, Donald J. O'Hara, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

9-22-97  
Date

  
Donald J. O'Hara

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

18. In USPS-T-36, Workpaper 1 and Workpaper 2, page 4, the percentage of presort nonletter pieces dropshipped to BMCs, SCFs, and DDUs is based on the percentage of presort letter pieces dropshipped to BMCs, SCFs, and DDUs, from page 2. Should the dropship distribution of nonletter pieces on page 2 be used instead to distribute the nonletter pieces to dropship category on page 4? If not, why not? If so, please show the effect on the Service's Standard (A) rate proposal.

RESPONSE:

Yes, the distribution of presort category nonletter pieces on page 4 should have been based on the percentages for presort category nonletter pieces on page 2.

Using the dropship distribution of nonletters instead of letters has no effect on the rates proposed.

The distribution of Test Year After Rates presort nonletter pieces (page 20 of WP1 and WP2) should also have been based on the dropship distribution for nonletters from page 2. Using the distribution for nonletters would have resulted in a slightly higher (about \$500,000) estimate of Test Year contribution for the Regular subclass; however, the cost coverage would still round to 154.45 percent. In Nonprofit, the increased estimated contribution would be about \$300,000 and the coverage would increase slightly, from 122.02 percent to 122.04 percent.

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

19. To calculate test year volumes by billing determinant category, witness Moeller uses billing determinants for the first two quarters of FY 1997 for commercial mail and the first quarter of FY 1997 for nonprofit mail. See USPS-T-36, Workpaper 1, page 1 and Workpaper 2, page 1.
  - a. What is the rationale for using FY 1997 quarterly billing determinants rather than base year?
  - b. What is the rationale for using the first two quarters for commercial mail but only the first quarter for nonprofit mail?

RESPONSE:

- a. The implementation of commercial classification reform on July 1, 1996, and of nonprofit classification reform on October 6, 1996, included significant changes in the rate structure for the affected subclasses, as well as significant changes in preparation requirements. In order for test year volumes by rate category to reflect the mail mixes that occurred after implementation of classification reform, it was necessary to use the most recent and complete post-classification reform billing determinants available to distribute the volume to rate category. The base year billing determinants would have reflected a hybrid of pre- and post-classification reform volumes.
- b. As described in subpart a, it was necessary to use the most recent and complete post-classification reform billing determinant information available in order to reflect post-reclassification mail mixes. For commercial, this included quarter one and two of FY 1997. With respect to the nonprofit subclasses, the rate design relies upon the second quarter of FY 97, not the first quarter. Since nonprofit classification reform was implemented in

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

October 1996, only quarter two of PFY 1997 reflected pure post-  
classification reform volume distributions.

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

21. For the purpose of proposing a residual shape surcharge, witness Moeller relies on witness Crum's unit costs by shape. See USPS-T-36 at 13. Witness Crum uses the shape costs presented in LR-H-108, Table 3 (which reflect total costs, not just mail processing and delivery), and calculates the unit cost difference between flats and parcels (including IPPs) by adjusting to remove the differences resulting from variation in presort and dropshipping.
- a. Is this characterization correct?
  - b. Please provide the rationale for using mail processing and delivery costs for computing worksharing cost differences and shape cost differences between letters and flats but using total costs for computing shape cost differences between flats and Parcels (including IPPs).

RESPONSE:

- a. Yes.
- b. Ideally, only cost differences due directly to the shape of the piece should be used as a basis for the rate differential. Mail processing and delivery cost differences were used to support the shape-based rates for letters and nonletters first proposed in Docket No. R90-1. The Postal Service did not mean to suggest that these were the only cost components upon which a shape-based rate differential could be based. Between flats and parcels, other cost segments might well be candidates for inclusion in the cost differential. Flats and parcels, for example, exhibit a significant difference in density (USPS LR-PCR-38) and, therefore, transportation costs. The cost difference underlying the residual shape surcharge accordingly reflects this difference in density. In any event, in this proceeding, the proposed rate differential is 10 cents, a figure which was proposed for reasons other than a strict adherence to a passthrough selection. See my testimony at page

RESPONSES OF U.S. POSTAL SERVICE WITNESS JOSEPH D. MOELLER  
TO PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

13, line 14, through page 14, line 5. It is my understanding that if the cost difference were limited to mail processing and delivery as the basis for a 10 cent surcharge, the resulting passthrough would be 36.9 percent, which would still be a relatively low passthrough.

## DECLARATION

I, Joseph D. Moeller, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
JOSEPH D. MOELLER

Dated: September 22, 1997

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

POIR NO. 3, QUESTION 22. In USPS-T-32, page 41, witness Fronk states that the auditing approach for Prepaid Reply mail (PRM) will be "modeled after those currently in use for outbound manifests." Please describe these manifest procedures in detail.

RESPONSE: The portion of my testimony you quote indicates that the Postal Service will draw on its experience in auditing manifest systems used by bulk mailers as we develop PRM auditing approaches.

By way of background, outbound manifesting is an automated system that allows a mailer to document postage and fees for all pieces in a mailing paid via permit imprint indicia. Using permit imprint indicia eliminates the need to affix postage via meters or stamps. Each piece in the mailing is assigned a unique identification number (or a keyline containing a unique identification number plus rate information about the piece) that can be compared to the outbound manifest. Mailers wishing to participate in the manifest program, must use a computerized system that meets postal standards for format, completeness, accuracy, timeliness, and proper payment of postage.

Note that the above description of outbound manifesting is not meant to imply that every PRM participant will need to maintain a reverse manifest of returned pieces, though such a manifest using the unique identification number (scanned in along with other payment information) is a possibility. Another PRM alternative would involve using data on PRM returns from a third-party lockbox operation.

Within this context of outbound manifest mailing, the Postal Service has gained experience conducting reviews and developing administrative procedures to monitor the mailer's overall operations. Such reviews include visits to the mailer's site to observe the system in operation and to ensure that the mailer has made no changes to agreed upon production procedures or required documentation. It includes an audit to make sure that the mailer supplied postage calculations are typically within 1.5 percent of the Postal Service



RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
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RESPONSE to QUESTION 22 (Continued)

calculations for the same mailings. It involves making sure the mailer is maintaining an effective quality control program. Rather than develop a single procedure or process, manifesting arrangements are typically tailored to meet the individual needs and requirements of the customer.

The Postal Service intends to draw on this experience should the PRM proposal be recommended by the Commission and approved by the Board of Governors. For instance, the Postal Service will conduct site visits to observe the system in operation in order to ensure required documentation is being maintained and agreed upon procedures are being followed. Also, the Postal Service will conduct an overall evaluation of whether the mailer-supplied postage calculations are within tolerance.

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PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

POIR NO. 3, QUESTION 23. In USPS-T-32, page 41, witness Fronk states, "The Postal Service estimates that to establish a PRM 'system' would involve 14 person days during the first year. Once established, the Postal Service anticipates that 10 person days would be involved annually at a labor cost of about \$4,100."

- a. Please define what constitutes a "system."
- b. Is a separate "system" necessary for each customer?
- c. Once the "system" is established, it appears that the labor costs incurred by the Postal Service are estimated to be \$4,100 annually. Why is it necessary for the Service to continue charging a \$1,000 monthly fee?
- d. Did the Postal Service consider charging a one time "set-up" fee and lower monthly fees? If yes, why was this idea rejected?
- e. If the fee structure in d. was not considered, please discuss advantages and disadvantages of such a structure compared to the Service's proposal.
- f. Footnote 15 on page 41 states that the annual labor costs include two person days for "ongoing administrative activities." Please describe these ongoing activities.

RESPONSE:

(a) A PRM system is an automated system that develops the information needed (for example, counts of mailpieces returned or the percentage of outgoing mailpieces typically returned) for the participant to calculate the amount of PRM postage owed. It also generates reports documenting such calculations and involves quality control procedures which help ensure accuracy of system outputs. In addition, a PRM system involves maintaining documentation and the audit trail needed for the Postal Service to review system operations, completeness, and accuracy.

Since PRM is especially targeted at the billing/remittance portion of the mailstream, the Postal Service anticipates that participating organizations will already have in place sophisticated automated payment systems that maintain a high degree of quality control due to their financial nature. Such systems will form the basis of the PRM system.

(b) Yes, in the sense that each participating mailer has its own customer base and unique postage calculation. I would note that it may be possible that some participants will have their remittances processed by the same third party

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RESPONSE to QUESTION 23 (Continued)

remittance operators. In such instances, the same overall automated system may collect and maintain information on more than one PRM participant. At this point, it is too early to tell if this will be the case.

(c) As indicated in my testimony, needed travel to the PRM participant's site would be in addition to the \$4,100 (page 41, line 15). Also, please note my testimony from page 42 (lines 1-9):

In the future, the Postal Service may be able to lower this fee should these estimates prove accurate. A somewhat higher fee initially serves two purposes. First, it is a hedge against the uncertainty surrounding the administration of any new postal service and the resulting cost estimates. Second, it allows the Postal Service an opportunity to adjust operationally to this new service and to develop expertise and administrative controls while setting up and overseeing a manageable number of PRM accounts. With a lower fee, the Postal Service could potentially be affected by a higher than anticipated response.

(d)-(e) The Postal Service did consider a set-up fee in this instance. As the Commission is aware, my testimony in Docket No. MC97-1 did propose a set-up fee for the nonletter-size Business Reply Mail experiment. Such a fee is novel in the postal context, and the Postal Service will now be collecting data on the appropriateness and workability of such a fee under the auspices of the experiment. I did not propose a set-up fee because the results of the experiment are not yet known. Also, the experiment involves setting up statistical sampling plans that are more complicated, and hence more costly, than the kind of set-up activity contemplated for PRM.

(f) Such activities include responding to participant questions and issues as they arise, arranging and planning for site audits, reviewing any proposed changes in how a particular system is administered and operated, and potentially arranging periodic, random checks of mailer-supplied counts, for example, by comparing the piece counts from end-of-run bin count reports prepared by the Postal

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RESPONSE to QUESTION 23 (continued)

Service as sort schemes are completed to mailer supplied counts for that time period.

RESPONSE OF U.S. POSTAL SERVICE WITNESS FRONK TO  
PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

POIR NO.3, QUESTION 24. In USPS-T-32, page 43, witness Fronk lists credit card companies and utilities as industries likely to be interested in PRM. How was it determined that these industries would be attracted to this rate?

RESPONSE: As indicated in my testimony (page 34), the PRM letter rate is intended to benefit the customers of large-volume business mailers by providing them with prepaid envelopes to return bill payments or other correspondence to the envelope provider. It is intended for mailers who have an ongoing, month-to-month billing relationship with their customers.

Utilities and credit card companies are large-volume mailers who have this kind of ongoing billing/remittance relationship with their customers. Also, these industries have the kind of strong retail customer service orientation that could generate interest in this product. In addition, bank card issuers compete intensely on the basis of interest rate, annual fee and grace period. They may be attracted to this product to gain a competitive edge.

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PRESIDING OFFICER'S INFORMATION REQUEST NO. 3

POIR NO. 3, QUESTION 25. In estimating volume for PRM, witness Fronk uses a percentage (2%) based on the "experience of the Postal Service in introducing a barcode discount in the late 1980s." Please explain the similarities between the introduction of PRM and the introduction of barcodes.

RESPONSE: In estimating an adoption rate, I was interested in identifying a postal product that involved significant changes in mailer preparation and practices. The adoption rate for such a product (barcoding) would reflect the pace at which mailers found it appropriate to make such changes. In addition, I believed that mailer barcoding was more analogous than some other forms of mailer preparation. For instance, it is my understanding that well before the initiation of presort and drop-shipping, some customers were already participating in these forms of worksharing. As such, there was a "ready-made" customer base. Barcoding discounts came relatively soon after automation equipment which could use the barcode was available. Consequently, automation discounts tended to "ramp up" from a less established base.

DECLARATION

I, David R. Fronk, hereby declare, under penalty of perjury, that the foregoing Docket No. R97-1 interrogatory responses are true to the best of my knowledge, information, and belief.

9-22-97

Date

David R. Fronk

David R. Fronk

**RESPONSE OF USPS WITNESS HATFIELD  
TO PRESIDING OFFICER'S INFORMATION REQUEST**

**POIR No. 3, Question 26.** In USPS-T-25, Appendix II, pages 4-5, the footnotes cite LR H-185 as the source of the figures in columns 1-5. Please provide specific page, or table, citations in LR H-185 where the figures in USPS-T-25, Appendix II, page 4, can be found. Please explain why the sum of individual row totals on pages 4 and 5 do not equal the totals given in LR H-185, Table 7.

**RESPONSE:**

All figures presented in columns 1-4 on page 4 of Appendix II of USPS-T-25 are from Library Reference USPS LR-H-185, Table 13, page 21. The figures presented in column 1 on page 5 of Appendix II are from USPS LR-H-185, Table 5, page 10. The figures presented in columns 2-4 on page 5 of Appendix II are from USPS LR-H-185, Table 3, page 8.

The data presented on page 4 of Appendix II of USPS-T-25 reflect presorted First-Class letters and cards that are prepared in non-OCR upgradable trays, but that do not fail any of the criteria for upgradable mail. The data presented in Table 7 of USPS LR-H-185, on the other hand, reflect all presorted First-Class letters and cards that are prepared in non-OCR upgradable trays, regardless of whether or not the pieces met the upgradable mail criteria.

The reason that data from Table 7 of USPS LR-H-185 do not appear in USPS-T-25 is that my testimony treats mail prepared in non-OCR upgradable trays differently depending on whether or not that mail failed any of the upgradable mail criteria. Further, the row totals calculated in column 5 on page 4 of Appendix II were calculated in my testimony based on the data presented in columns 1-4 and do not appear in USPS LR-H-185.



# DECLARATION

I, Philip A. Hatfield, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

Philip A. Hatfield.

Dated: 9-22-97

Response of United States Postal Service Witness Degen  
to Presiding Officer's Information Request #3

28. In most cases, IOCS data were used to separate accrued Clerks and Mailhandler costs (Segment 3) into mail processing, window service and administrative cost components. In R97-1, the service uses MODS data to separate the accrued Segment 3 costs into these three cost components for MODS 1 and 2 offices. The following table shows the results from using the two different systems to separate the costs and shows that approximately \$792 million of window service and administrative costs migrate to the mail processing category as a result of using MODS.

Accrued Costs (Millions)

	Mail Processing	Window Service	Administrative	Total
Using MODS <sup>1</sup>	13,247	1,907	1,302	16,456
Using IOCS <sup>2</sup>	12,455	2,013	1,987	16,456
Difference	792	(107)	(685)	0

Please elaborate on the discussion in USPS-T-12, page 6 and 7, regarding the reasons for the migration. In particular, please identify the approximate percentage of the cost changes due to: (1) an IOCS data collector observing an employee working at a different task from the MODS activity code the employee is clocked into at the time of the observation; (2) window service and administrative activities being redefined as mail processing, or vice-a-versa, as indicated in the USPS response to interrogatory OCA/USPS-T12-27, lines 3-5; or (3) any other reason. Please provide a listing of the IOCS activity codes being redefined due to the second case and show the amount of costs moving due to changes in definitions.

28. Response.

I believe the majority of the difference between the two methods to be caused by the methodological change that partitions costs at MODS offices into the components based on workhours recorded in the MOD system by

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<sup>1</sup> USPS T-5 Exhibit 5C page 9.

<sup>2</sup> LR-H-1 page 3-2.

**Response of United States Postal Service Witness Degen  
to Presiding Officer's Information Request #3**

MODS operation number and LDC, rather than on IOCS tally costs grouped by "functional component." In the BY 1996 methodology, mail processing includes all costs associated with workhours in LDCs 11-18, 41-44, 48-49 and 79, regardless of the workers' activities. The definitions of LDCs 18, 48 and 79 (see LR-H-146 at I-33, I-35 and I-37), in particular, include work activities which would be assigned administrative uniform operation codes in IOCS, but which in MODS constitute administration of mail processing.

When sampled, these work activities will cause tally "migration" because of the classification difference between the recorded MODS number and the IOCS uniform operation code. Please note that the FY 1996 CRA methodology does not separately identify these costs, but recognizes that certain costs in the administrative component are volume-variable to the same extent as and should be distributed in proportion to mail processing costs. See sections 3.3.3 and 3.3.4 of LR-H-1. The BY 1996 methodology separately identifies administration of mail processing and classifies it as part of the mail processing component. I believe this is what you mean to characterize as your reason (2).

It is possible that an employee is inappropriately clocked into a mail processing MODS operation when working a window service or general administrative activity which has its own MODS operation number.

**Response of United States Postal Service Witness Degen  
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Clocking errors of this type could also cause some shift of costs between the Cost Segment 3 components. I believe this is similar to what you would characterize as reason (1), however, note that the clocking error that causes the cost shift is in the MODS data, not the IOCS data. (Recall that in BY 1996, IOCS data play no role in the formulation of MODS cost pools.) Such clocking errors may be a cause of IOCS tallies "migrating" between cost components. Since the sampled IOCS activity does not distinguish between administration of mail processing and general administrative work, I cannot determine whether a given migrated tally is due to reason (2) or reason (1). I suspect, however, that very little of the observed shift is due to reason (1).

Clocking in or out (IOCS activity code 6522) is assigned an administrative IOCS uniform operation code regardless of the operation the employee was or would be working, which has previously required that these costs be redistributed among the Segment 3 cost components. In the BY 1996 methodology, 6522 costs at MODS offices are correctly classified according to the MODS operation the employee is clocking into or out of. The clocking in/out tallies will migrate, though any net shift in costs is due to the refinement of the clocking in/out cost allocation from the FY 1996 methodology. Finally, some cost migration may result from the implicit reweighting of the IOCS tally costs for tallies taken at BMCs and non-MODS

**Response of United States Postal Service Witness Degen  
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offices to the office group costs computed in program MODSP00L, LR-H-

146. I believe these fall under reason (3).

In the attachment to this response, I provide an estimate of the costs shifting among components by MODS cost pool. Proportions of IOCS tally costs associated with each cost pool by the FY 1996 cost component definitions are used to create this breakdown. The migration of costs from the administrative component to mail processing and window service is adjusted to reflect the fact that clocking in/out costs at MODS offices no longer need to be redistributed among cost components. I observe that a majority of the costs migrating from administrative to mail processing (53.2%) are in cost pools related to LDCs 18, 48, and 79. As stated above, I believe the classification difference for these costs is overwhelmingly due to reason (2). Since the proportion of migrated costs in other cost pools is small, I expect that these reflect incidental administrative or miscellaneous work performed by employees in mail processing operations which is now assigned to cost component on the basis of the clocked-in MODS operation, which I also interpret as primarily due to reason (2). Migrated costs not accounted for by the attachment are due to reason (3).

IOCS Tally Costs by IOCS Operation Code Group												
		(1)	(2)	(3)	(4)	(5)	(6)	(1)x(6)	(2)*(6)	((3)+(4))*(6)	(4)x(6)	(3)x(6)
LDC	Pool	Mail Proc	Window	Non-6522 Admin	Admin - 6522	Total	Pool Costs	Migration from Mail Processing	Migration from Window	Migration from Admin	6522 Adjustment	Adjusted Migration From Admin
11	bcs/	95.81%	0.03%	2.50%	1.66%	100.00%	681,360		211	28,339	11,310	17,029
11	ocr/	95.08%	0.11%	2.96%	1.85%	100.00%	224,198		248	10,788	4,158	6,630
12	fsm/	95.44%	0.26%	2.55%	1.75%	100.00%	736,969		1,916	31,688	12,932	18,757
12	ism/	96.26%	0.05%	1.97%	1.72%	100.00%	731,680		346	26,983	12,552	14,431
13	1SackS_m	91.58%	0.36%	5.93%	2.13%	100.00%	47,771		171	3,852	1,019	2,832
13	mecparc	94.17%	1.10%	3.02%	1.71%	100.00%	9,607		105	455	164	290
13	spbs Oth	93.37%	0.03%	4.00%	2.61%	100.00%	174,127		45	11,505	4,542	6,963
13	spbs Prio	91.93%	0.01%	6.02%	2.04%	100.00%	57,966		4	4,672	1,183	3,488
14	manf	95.10%	0.20%	2.43%	2.26%	100.00%	514,848		1,050	24,176	11,649	12,528
14	manl	94.29%	0.40%	2.85%	2.45%	100.00%	1,342,326		5,425	71,205	32,896	38,309
14	manp	93.43%	0.21%	4.34%	2.02%	100.00%	60,049		126	3,820	1,214	2,606
14	priority	93.50%	0.46%	3.87%	2.17%	100.00%	222,512		1,022	13,437	4,832	8,604
15	LD15	100.00%	0.00%	0.00%	0.00%	100.00%	382,392		0	0	0	0
17	1Bulk pr	82.58%	7.36%	8.27%	1.79%	100.00%	11,667		858	1,174	209	965
17	1CancMPP	94.00%	0.34%	3.98%	1.68%	100.00%	287,698		967	16,282	4,839	11,442
17	1OPbulk	92.29%	0.18%	4.30%	3.24%	100.00%	315,068		554	23,748	10,214	13,534
17	1OPref	92.13%	0.07%	5.01%	2.80%	100.00%	745,408		497	58,191	20,860	37,331
17	1Platform	92.74%	0.12%	4.94%	2.20%	100.00%	891,539		1,095	63,671	19,634	44,036
17	1POUCHING	93.40%	0.07%	4.16%	2.37%	100.00%	437,919		319	28,592	10,387	18,205
17	1SackS_h	93.93%	0.15%	3.55%	2.37%	100.00%	169,234		261	10,008	4,007	5,999
17	1SCAN	91.08%	0.09%	7.18%	1.64%	100.00%	58,033		53	5,122	953	4,169
18	1EEQMT	70.26%	0.00%	28.34%	1.40%	100.00%	49,885		0	14,836	700	14,136
18	1MISC	52.96%	1.07%	44.56%	1.42%	100.00%	130,709		1,387	60,094	1,852	58,242
18	1SUPPORT	16.11%	1.60%	81.13%	1.15%	100.00%	137,232		2,199	112,922	1,581	111,340
18	Bus Reply	93.28%	0.66%	4.57%	1.49%	100.00%	31,344		207	1,900	467	1,434
18	express	92.41%	1.27%	4.53%	1.80%	100.00%	79,142		1,004	5,005	1,421	3,583
18	MAILGRAM	80.87%	9.25%	9.88%	0.00%	100.00%	368		34	36	0	36
18	Registry	92.11%	1.51%	5.18%	1.20%	100.00%	126,948		1,912	8,099	1,529	6,570
18	REWRAP	85.67%	0.00%	12.42%	1.91%	100.00%	15,579		0	2,232	297	1,935
19	INTL	91.30%	2.33%	5.23%	1.14%	100.00%	110,273		2,572	7,025	1,257	5,768
41	LD41	93.37%	0.00%	4.78%	1.84%	100.00%	18,542		0	1,229	342	887
42	LD42	89.24%	4.13%	5.83%	0.80%	100.00%	2,139		88	142	17	125
43	LD43	87.74%	4.93%	5.50%	1.83%	100.00%	521,570		25,720	38,227	9,563	28,663
44	LD44	84.16%	9.41%	4.94%	1.48%	100.00%	126,758		11,934	8,142	1,875	6,267
48	LD48 Exp	69.27%	2.30%	26.44%	1.99%	100.00%	3,203		74	911	64	847
48	LD48 Oth	57.85%	15.70%	24.62%	1.84%	100.00%	127,532		20,017	33,741	2,341	31,399
48	LD48 Sp Serv	77.88%	9.11%	11.91%	1.10%	100.00%	106,486		9,705	13,850	1,169	12,681
48	LD48 Adm	27.61%	21.95%	49.57%	0.86%	100.00%	148,358		32,569	74,824	1,281	73,543

Attachment responsive to Presiding Officer's Information Request #3, Question 28

IOCS Tally Costs by IOCS Operation Code Group												
		(1)	(2)	(3)	(4)	(5)	(6)	(1)x(6)	(2)x(6)	((3)+(4))x(6)	(4)x(6)	(3)x(6)
LDC	Pool	Mail Proc	Window	Non-6522 Admin	Admin - 6522	Total	Pool Costs	Migration from Mail Processing	Migration from Window	Migration from Admin	6522 Adjustment	Adjusted Migration From Admin
49 LD49		95.04%	0.08%	3.11%	1.77%	100.00%	252,327		205	12,323	4,471	7,852
79 LD79		62.84%	1.68%	33.94%	1.54%	100.00%	134,835		2,270	47,838	2,076	45,762
	Admin	17.41%	4.31%	77.11%	1.17%	100.00%	693,328	120,737	29,861			0
45 2Window		5.48%	90.09%	3.40%	1.04%	100.00%	684,143	37,488		30,338	7,091	23,248
	Total	80.55%	6.56%	10.96%	1.93%	100.00%	11,603,072	158,225	157,042	911,417	206,948	702,469

Column sources:

(1)-(4) Analysis of IOCS tally file

(6) USPS-T-14, Table 4 and LR-H-146, p. 1-28

**Response of United States Postal Service Witness Degen  
to Presiding Officer's Information Request #3**

29. Please discuss the instances in which local facility managers can customize the MODS codes to their own management needs and the distortion that this has on the aggregation of data for national purposes. In particular, what is the extent of the customization, does the customization isolate hours and pieces handled data into pools that are not captured in the 46 cost pools created by witness Degen, and how is this effect accounted for by witnesses Degen and Bradley in their analyses?

29. Response.

The customization options that local facility managers have is limited.

Managers can assign greater detail only for certain sets of three-digit MODS operation codes. For example, MODS codes 110-114 are all for "Opening Unit Outgoing - Pref." A manager could use these codes to record separately workhours for specific opening unit activities. For a listing of mail processing operations that have multiple MODS codes, please see the listing of operation numbers presented in Exhibit-14A, USPS-T-14.

I account for the customization of certain MODS codes by grouping ranges of MODS codes in the course of defining the MODS cost pools. The 10PPref cost pool thus is based on workhours recorded in MODS operations 110-114 and 180-184. Thus, the total "Opening Unit - Pref" workhours I obtain are unaffected by any local variation in use of the individual three digit MODS codes.



**Response of United States Postal Service Witness Degen  
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31. Please confirm that some processing facilities locate portions of their automation work, in particular Delivery Point Sorting on Bar Code Sorting machines, in delivery units; and that the manhours and prices processed there are not captured by the MODS system. If confirmed, how do witnesses Degen and Bradley account for this in their analysis?

31. Response.

Confirmed that some automated Delivery Point Sorting (DPS) work is performed in delivery units. This work corresponds to the LD41 cost pool for the MODS office group. The LD41 cost pool amount is determined directly from Pay Data System compensation amounts booked under LDC 41 for offices in Reporting Office Groups 1 and 2, so I capture these costs regardless of whether the corresponding workhours are actually recorded in MODS. However, I understand that MODS captures the vast majority of the workhours associated with the LD41 cost pool. Witness Bradley does not estimate a variability for LD41, but rather applies the a proxy variability based on the estimated variabilities for the LDC 11 OCR and BCS pools.

## DECLARATION

I, Carl G. Degen, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.

  
\_\_\_\_\_  
Carl G. Degen

Date: 9-22-97

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS MODEN  
TO THE PRESIDING OFFICERS INFORMATION REQUEST**

POIR/USPS-29. Please discuss the instances in which local facility managers can customize the MODS codes to their own management needs and the distortion that this has on the aggregation of data for national purposes. In particular, what is the extent of the customization, does the customization isolate hours and pieces handled data into pools that are not captured in the 46 cost pools created by witnesses Degen , and how is this effect accounted for by witnesses Degen and Bradley in their analyses?

**Response:**

In the definitions of MODS operations found in the MODS Handbook, M-32,

LR-H-147, some operations are defined for a sequence of operation numbers without any subsequent detailed definition of individual numbers within the series. For example, "Platform Operations – Loading and Unloading" is the only definition for the series 210-229. Local facility managers can define platform sub-operations to match their unique arrangement of docks, doors, elevators, etc., but these sub-operations must conform to the overall M-32 definition of Platform 210-229. This does not distort any national aggregations since the data is always combined nationally for 210-229 and reported as 210C ("combined") or just 210 for short. Opening units and pouching provide other examples. The remainder of this information request is referred to witnesses Degen and Bradley.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE WITNESS MODEN  
TO THE PRESIDING OFFICERS INFORMATION REQUEST**

POIR/USPS-30. Please provide additional descriptive information on the "fundamental restructuring of the Postal Service operations in FY 1993" that led to the use of the segmented time trend in witness Bradley's econometric analysis of mail processing. In particular, describe the specific changes that constituted the "potentially material restructuring of mail processing at that time" referred to in the response to DMA/USPS-T14-24 and the "reorganization of the workroom floor that occurred in FY 1993" referred to in UPS/USPS-T14-19. Also, discuss how these changes impacted the time trend so significantly.

**Response:**

In 1992-1993 there was a restructuring of the Postal Service in which 23,000 overhead positions were eliminated. Industrial Engineering and Quality Control positions were reduced significantly and there was significant movement of personnel in other technical, supervisory, and management positions. Due to retirement incentives, expertise was temporarily lost on the workroom floor as many senior craft personnel retired and craft positions were rebid. Capital spending was frozen while the automation plan was re-evaluated, entire levels of management were eliminated, and Mail Processing was split from Retail and Delivery with no common management below Headquarters. The remainder of this inquiry is referred to witness Bradley.

## DECLARATION

I, Ralph J. Moden, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information and belief.

Ralph J. Moden

Dated: 9/22/97

Response of United States Postal Service Witness Bradley  
to  
Presiding Officer's Information Request #3

29. Please discuss the instances in which local facility managers can customize the MODS codes to their own management needs and the distortion that this has on the aggregation of data for national purposes. In particular, what is the extent of the customization, does the customization isolate hours and pieces handled data into pools that are not captured in the 46 cost pools created by witness Degen, and how is this effect accounted for by witnesses Degen and Bradley in their analyses?

29. Response:

(Please note that witnesses Degen and Moden are also answering this information request.)

The customization or multiple code option that local facility managers have is limited. Managers can assign greater detail only for certain sets of three digit MODS codes. For example, MODS codes 110, 111, 112, 113, and 114 are all for Opening Unit Outgoing - Pref. and can be assigned to greater detail within that activity. For a listing of mail processing operations that have multiple MODS codes, please see the listing of MODS operation numbers presented in Exhibit USPS-14A, to my testimony.

I account for this effect in my analysis by grouping MODS three digit codes to the level of the mail processing activity. For example, I combine all Opening Unit - Pref MODS codes into one activity and estimate a single equation for that activity. In this way, I control for any local variation in assigning the individual three digit codes in the activity.

Response of United States Postal Service Witness Bradley  
to  
Presiding Officer's Information Request #3

30. Please provide additional descriptive information on the "fundamental restructuring of Postal Service operations in FY 1993" that led to the use of the segmented time trend in witness Bradley's econometric analysis of mail processing. In particular, describe the specific changes that constituted the "potentially material restructuring of mail processing at that time" referred to in the response to DMA/USPS-T14-24 and the "reorganization of the workroom floor that occurred in FY 1993" referred to in the response to UPS/USPS-T14-19. Also, discuss how these changes impacted the time trend so significantly.

30. Response.

(Please note that witness Moden is also providing a response to this information request.

I am responding to the last sentence of the response.)

A segmented or broken trend can be thought of as representing a regime change in which the autonomous (non-volume) forces affecting hours have changed. In my case, the well-known Postal restructuring raised the possibility that the use of individual mail processing operations was shifted, and thus the autonomous influences would be different post-1992. These types of changes would affect the time trend significantly if the subsequent regime is materially different from the previous regime. If so, the external forces on the operation would have changed and the estimated coefficients would reflect this change.

Response of United States Postal Service Witness Bradley  
to  
Presiding Officer's Information Request #3

31. Please confirm that some processing facilities locate portions of their automation work, in particular Delivery Point Sorting on Bar Code Sorting machines, in delivery units; and that the manhours and pieces processed there are not captured by the MODS system. If confirmed, how do witnesses Degen and Bradley account for this in their analyses?

31. Response

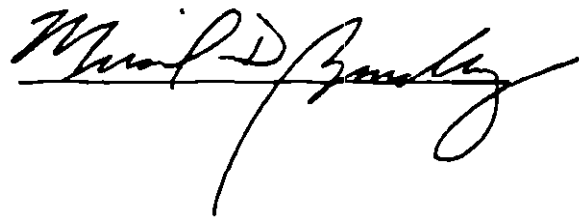
(Please note that witness Degen is also answering this information request.)

To the extent the delivery units are part of a processing and distribution facility that reports to MODS, the hours and pieces processed from the delivery unit would be rolled up with other BCS hours and pieces processed. On the other hand, if the hours and pieces processed are at delivery units not associated with MODS sites, they would not be included in my analysis. It is not necessary to have data from every site that uses a BCS to estimate an accurate equation for the BCS activity. Given the volume of data that I already have for estimating a BCS variability (22,572 observations), I believe that sufficient data have been collected to be representative of all BCS operations.



# DECLARATION

I, Michael D. Bradley, declare under penalty of perjury that the foregoing answers are true and correct, to the best of my knowledge, information, and belief.


A handwritten signature in cursive script, reading "Michael D. Bradley", written over a horizontal line.

Dated: Sept. 22, 1997

**CERTIFICATE OF SERVICE**

I hereby certify that I have this day served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

475 L'Enfant Plaza West, S.W.  
Washington, D.C. 20260-1137  
(202) 268-2992; Fax -5402  
September 22, 1997

  
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Eric P. Koetting